Treasury Board Secretariat

Ontario

Public Accounts of Ontario

Financial Statements of Government Business Enterprises, Trusts and Miscellaneous Statements

VOLUME 2C

2017–2018

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A GUIDE TO THE PUBLIC ACCOUNTS

1. SCOPE OF THE PUBLIC ACCOUNTS

The 2017-2018 Public Accounts of the Province of Ontario comprise the **Annual Report and Consolidated Financial Statements** and three volumes:

Volume 1 contains ministry statements and detailed schedules of debt and other items. The ministry statements reflect the financial activities of the government's ministries on the accrual basis of accounting, providing a comparison of appropriations with actual spending. Ministry expenses include all expenses that are subject to appropriation approved by the Legislative Assembly, but exclude adjustments arising from consolidation of government organizations whose expenses are not appropriated.

Volume 2 contains the financial statements of Government Organizations and Business Enterprises that are part of the government's reporting entity and other miscellaneous financial statements.

Volume 3 contains the details of payments made by ministries to vendors (including sales tax) and transfer payment recipients that are not deemed to be prohibited by the *Freedom of Information and Protection of Privacy Act.*

2. A GUIDE TO VOLUME 2 OF THE PUBLIC ACCOUNTS

The financial statements of the selected crown corporations, boards and commissions are for fiscal periods ending within the Province's own fiscal period April 1, 2017 to March 31, 2018. They are presented in the same detail as the approved, audited financial statements and as nearly as possible in the same form. The statements have been presented in the order shown in the Table of Contents. In addition, a listing is provided which groups the crown corporations, boards and commissions by ministerial responsibility.

GOVERNMENT BUSINESS ENTERPRISES

HYDRO ONE INC.
MANAGEMENT'S REPORT

The Consolidated Financial Statements, Management's Discussion and Analysis (MD&A) and related financial information have been prepared by the management of Hydro One Inc. (Hydro One or the Company). Management is responsible for the integrity, consistency and reliability of all such information presented. The Consolidated Financial Statements have been prepared in accordance with United States Generally Accepted Accounting Principles and applicable securities legislation. The MD&A has been prepared in accordance with National Instrument 51-102.

The preparation of the Consolidated Financial Statements and information in the MD&A involves the use of estimates and assumptions based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 2 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements and the MD&A includes information regarding the estimated impact of future events and transactions. The MD&A also includes information regarding sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements and MD&A have been properly prepared within reasonable limits of materiality and in light of information up to February 12, 2018.

Management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over financial reporting as described in the annual MD&A. Management evaluated the effectiveness of the design and operation of internal control over financial reporting based on the framework and criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective at a reasonable level of assurance as of December 31, 2017. As required, the results of that evaluation were reported to the Audit Committee of the Hydro One Board of Directors and the external auditors.

The Consolidated Financial Statements have been audited by KPMG LLP, independent external auditors appointed by the shareholders of the Company. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with United States Generally Accepted Accounting Principles. The Independent Auditors' Report outlines the scope of their examination and their opinion.

The Hydro One Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control over reporting and disclosure. The Audit Committee of Hydro One met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit findings.

On behalf of Hydro One's management:

Mayo Schmidt	Christopher Lopez
President and Chief Executive Officer	Senior Vice President, Finance acting in the capacity of chief financial officer

HYDRO ONE INC.
INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro One Inc.

We have audited the accompanying consolidated financial statements of Hydro One Inc., which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of operations and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with United States Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hydro One Inc. as at December 31, 2017 and December 31, 2016, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with United States Generally Accepted Accounting Principles.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
February 12, 2018

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2017 and 2016

Year ended December 31 *(millions of Canadian dollars, except per share amounts)*	2017	2016
Revenues		
Distribution (includes $279 related party revenues; 2016 – $160) *(Note 26)*	4,366	4,915
Transmission (includes $1,526 related party revenues; 2016 – $1,556) *(Note 26)*	1,581	1,587
	5,947	6,502
Costs		
Purchased power (includes $1,594 related party costs; 2016 – $2,103) *(Note 26)*	2,875	3,427
Operation, maintenance and administration *(Note 26)*	1,014	1,043
Depreciation and amortization *(Note 5)*	810	769
	4,699	5,239
Income before financing charges and income taxes	**1,248**	**1,263**
Financing charges *(Note 6)*	411	392
Income before income taxes	**837**	**871**
Income taxes *(Note 7)*	120	135
Net income	**717**	**736**
Other comprehensive income	—	—
Comprehensive income	**717**	**736**
Net income attributable to:		
Noncontrolling interest *(Note 25)*	6	6
Common shareholder	711	730
	717	**736**
Comprehensive income attributable to:		
Noncontrolling interest *(Note 25)*	6	6
Common shareholder	711	730
	717	**736**
Earnings per common share *(Note 23)*		
Basic	$4,999	$5,132
Diluted	$4,999	$5,132
Dividends per common share declared *(Note 22)*	$105	$14

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS
At December 31, 2017 and 2016

December 31 *(millions of Canadian dollars)*	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	—	48
Accounts receivable *(Note 8)*	635	833
Due from related parties *(Note 26)*	439	224
Other current assets *(Note 9)*	104	97
	1,178	1,202
Property, plant and equipment *(Note 10)*	19,871	19,068
Other long-term assets:		
Regulatory assets *(Note 12)*	3,049	3,145
Deferred income tax assets *(Note 7)*	954	1,213
Intangible assets *(Note 11)*	369	349
Goodwill *(Note 4)*	325	327
Other assets	5	6
	4,702	5,040
Total assets	**25,751**	**25,310**
Liabilities		
Current liabilities:		
Bank indebtedness	3	—
Short-term notes payable *(Note 15)*	926	469
Long-term debt payable within one year *(Notes 15, 16)*	752	602
Accounts payable and other current liabilities *(Note 13)*	892	933
Due to related parties *(Note 26)*	343	253
	2,916	2,257
Long-term liabilities:		
Long-term debt (includes $541 measured at fair value; 2016 – $548) *(Notes 15, 16)*	9,315	10,078
Regulatory liabilities *(Note 12)*	128	209
Deferred income tax liabilities *(Note 7)*	70	60
Other long-term liabilities *(Note 14)*	2,734	2,765
	12,247	13,112
Total liabilities	**15,163**	**15,369**
Contingencies and Commitments *(Notes 28, 29)*		
Subsequent Events *(Note 31)*		
Preferred shares *(Note 21)*	486	—
Noncontrolling interest subject to redemption *(Note 25)*	22	22
Equity		
Common shares *(Note 21)*	4,856	5,391
Retained earnings	5,183	4,487
Accumulated other comprehensive loss	(9)	(9)
Hydro One shareholder's equity	10,030	9,869
Noncontrolling interest *(Note 25)*	50	50
Total equity	**10,080**	**9,919**
	25,751	**25,310**

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:

David Denison
Chair

Philip Orsino
Chair, Audit Committee

hydroOne

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2017 and 2016

Year ended December 31, 2017 *(millions of Canadian dollars)*	Common Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Hydro One Shareholder's Equity	Non-controlling Interest *(Note 25)*	Total Equity
January 1, 2017	5,391	4,487	(9)	9,869	50	9,919
Net income	—	711	—	711	4	715
Other comprehensive income	—	—	—	—	—	—
Distributions to noncontrolling interest	—	—	—	—	(4)	(4)
Dividends on common shares	—	(15)	—	(15)	—	(15)
Return of stated capital *(Note 21)*	(535)	—	—	(535)	—	(535)
December 31, 2017	**4,856**	**5,183**	**(9)**	**10,030**	**50**	**10,080**

Year ended December 31, 2016 *(millions of Canadian dollars)*	Common Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Hydro One Shareholder's Equity	Non-controlling Interest *(Note 25)*	Total Equity
January 1, 2016	6,000	3,759	(9)	9,750	52	9,802
Net income	—	730	—	730	4	734
Other comprehensive income	—	—	—	—	—	—
Distributions to noncontrolling interest	—	—	—	—	(6)	(6)
Dividends on common shares	—	(2)	—	(2)	—	(2)
Return of stated capital *(Note 21)*	(609)	—	—	(609)	—	(609)
December 31, 2016	**5,391**	**4,487**	**(9)**	**9,869**	**50**	**9,919**

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016

Year ended December 31 *(millions of Canadian dollars)*	2017	2016
Operating activities		
Net income	717	736
Environmental expenditures	(24)	(20)
Adjustments for non-cash items:		
Depreciation and amortization (excluding asset removal costs)	720	679
Regulatory assets and liabilities	112	(16)
Deferred income taxes	96	111
Other	10	10
Changes in non-cash balances related to operations *(Note 27)*	63	168
Net cash from operating activities	**1,694**	**1,668**
Financing activities		
Long-term debt issued	—	2,300
Long-term debt repaid	(602)	(502)
Short-term notes issued	3,795	3,031
Short-term notes repaid	(3,338)	(4,053)
Promissory note issued *(Note 26)*	486	—
Promissory note repaid *(Note 26)*	(486)	—
Return of stated capital	(535)	(609)
Preferred shares issued	486	—
Dividends paid	(15)	(2)
Distributions paid to noncontrolling interest	(6)	(9)
Change in bank indebtedness	3	—
Other	—	(10)
Net cash from (used in) financing activities	**(212)**	**146**
Investing activities		
Capital expenditures *(Note 27)*		
Property, plant and equipment	(1,456)	(1,594)
Intangible assets	(80)	(61)
Acquisitions *(Note 4)*	—	(224)
Capital contributions received *(Note 27)*	9	21
Other	(3)	3
Net cash used in investing activities	**(1,530)**	**(1,855)**
Net change in cash and cash equivalents	(48)	(41)
Cash and cash equivalents, beginning of year	48	89
Cash and cash equivalents, end of year	**—**	**48**

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

1. DESCRIPTION OF THE BUSINESS

Hydro One Inc. (Hydro One or the Company) was incorporated on December 1, 1998, under the Business Corporations Act (Ontario) and is wholly-owned by Hydro One Limited. The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

These Consolidated Financial Statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances have been eliminated.

Basis of Accounting

These Consolidated Financial Statements are prepared and presented in accordance with United States (US) Generally Accepted Accounting Principles (GAAP) and in Canadian dollars.

Use of Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Management evaluates these estimates on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the assumptions are made, with any adjustments being recognized in results of operations in the period they arise. Significant estimates relate to regulatory assets and regulatory liabilities, environmental liabilities, pension benefits, post-retirement and post-employment benefits, asset retirement obligations, goodwill and asset impairments, contingencies, unbilled revenues, and deferred income tax assets and liabilities. Actual results may differ significantly from these estimates.

Rate Setting

The Company's Transmission Business consists of the transmission business of Hydro One Networks Inc. (Hydro One Networks), Hydro One Sault Ste. Marie LP (HOSSM) (formerly Great Lakes Power Transmission LP), and its 66% interest in B2M Limited Partnership (B2M LP). The Company's Distribution Business consists of the distribution businesses of Hydro One Networks, as well as Hydro One Remote Communities Inc. (Hydro One Remote Communities).

Transmission

In November 2017, the Ontario Energy Board (OEB) approved Hydro One Networks' 2017 transmission rates revenue requirement of $1,438 million. See Note 12 - Regulatory Assets and Liabilities for additional information.

In December 2015, the OEB approved B2M LP's 2015-2019 rates revenue requirements of $39 million, $36 million, $37 million, $38 million and $37 million for the respective years. On January 14, 2016, the OEB approved the B2M LP revenue requirement recovery through the 2016 Uniform Transmission Rates, and the establishment of a deferral account to capture costs of Tax Rate and Rule changes. On June 8, 2017, the OEB approved the 2017 rates revenue requirement of $34 million, updated for the cost of capital parameters.

On September 28, 2017, the OEB issued its Decision and Order on HOSSM's 2017 transmission rates application, denying the requested revenue requirement for 2017. HOSSM's 2016 approved revenue requirement of $41 million will remain in effect for 2017.

Distribution

In March 2015, the OEB approved Hydro One Networks' distribution revenue requirements of $1,326 million for 2015, $1,430 million for 2016 and $1,486 million for 2017. The OEB has subsequently approved updated revenue requirements of $1,410 million for 2016 and $1,415 million for 2017.

On March 30, 2017, the OEB approved an increase of 1.9% to Hydro One Remote Communities' basic rates for the distribution and generation of electricity, with an effective date of May 1, 2017.

Regulatory Accounting

The OEB has the general power to include or exclude revenues, costs, gains or losses in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Company's regulatory assets represent amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Company has recorded regulatory liabilities that generally represent amounts that are refundable to future customers. The Company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will include its regulatory assets and liabilities in setting future rates. If, at some future date, the Company judges that it is no longer probable that the OEB will include a regulatory asset or liability in setting future rates, the appropriate carrying amount would be reflected in results of operations in the period that the assessment is made.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with an original maturity of three months or less.

Revenue Recognition

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as electricity is transmitted and delivered to customers.

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized on an accrual basis and include billed and unbilled revenues. Billed revenues are based on electricity delivered as measured from customer meters. At the end of each month, electricity delivered to customers since the date of the last billed meter reading is estimated, and the corresponding unbilled revenue is recorded. The unbilled revenue estimate is affected by energy consumption, weather, and changes in the composition of customer classes.

Distribution revenue also includes an amount relating to rate protection for rural, residential, and remote customers, which is received from the Independent Electricity System Operator (IESO) based on a standardized customer rate that is approved by the OEB.

Revenues also include amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered.

Revenues are recorded net of indirect taxes.

Accounts Receivable and Allowance for Doubtful Accounts

Billed accounts receivable are recorded at the invoiced amount, net of allowance for doubtful accounts. Unbilled accounts receivable are recorded at their estimated value. Overdue amounts related to regulated billings bear interest at OEB-approved rates. The allowance for doubtful accounts reflects the Company's best estimate of losses on billed accounts receivable balances. The Company estimates the allowance for doubtful accounts on billed accounts receivable by applying internally developed loss rates to the outstanding receivable balances by aging category. Loss rates applied to the billed accounts receivable balances are based on historical overdue balances, customer payments and write-offs. Accounts receivable are written-off against the allowance when they are deemed uncollectible. The allowance for doubtful accounts is affected by changes in volume, prices and economic conditions.

Noncontrolling interest

Noncontrolling interest represents the portion of equity ownership in subsidiaries that is not attributable to the shareholder of Hydro One. Noncontrolling interest is initially recorded at fair value and subsequently the amount is adjusted for the proportionate share of net income and other comprehensive income (OCI) attributable to the noncontrolling interest and any dividends or distributions paid to the noncontrolling interest.

If a transaction results in the acquisition of all, or part, of a noncontrolling interest in a subsidiary, the acquisition of the noncontrolling interest is accounted for as an equity transaction. No gain or loss is recognized in consolidated net income or comprehensive income as a result of changes in the noncontrolling interest, unless a change results in the loss of control by the Company.

Income Taxes

Current and deferred income taxes are computed based on the tax rates and tax laws enacted as at the balance sheet date. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the "more-likely-than-not" recognition threshold is satisfied and are measured at the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. Significant management judgment is required to determine recognition thresholds and the related amount of tax benefits to be recognized in the Consolidated Financial Statements. Management re-evaluates tax positions each period using new information about recognition or measurement as it becomes available.

Deferred Income Taxes

Deferred income taxes are provided for using the liability method. Under this method, deferred income tax liabilities are recognized on all taxable temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for deductible temporary differences between tax bases and carrying amounts of assets and liabilities, the carry forward unused tax credits and tax losses to the extent that it is more-likely-than-not that these deductions, credits, and losses can be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates and tax laws that have been enacted as at the balance sheet date. Deferred income taxes that are not included in the rate-setting process are charged or credited to the Consolidated Statements of Operations and Comprehensive Income.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

Management reassesses the deferred income tax assets at each balance sheet date and reduces the amount to the extent that it is more-likely-than-not that the deferred income tax asset will not be realized. Previously unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more-likely-than-not that the tax benefit will be realized.

The Company records regulatory assets and liabilities associated with deferred income tax assets and liabilities that will be included in the rate-setting process.

The Company uses the flow-through method to account for investment tax credits (ITCs) earned on eligible scientific research and experimental development expenditures, and apprenticeship job creation. Under this method, only non-refundable ITCs are recognized as a reduction to income tax expense.

Materials and Supplies

Materials and supplies represent consumables, small spare parts and construction materials held for internal construction and maintenance of property, plant and equipment. These assets are carried at average cost less any impairments recorded.

Property, Plant and Equipment

Property, plant and equipment is recorded at original cost, net of customer contributions, and any accumulated impairment losses. The cost of additions, including betterments and replacement asset components, is included on the Consolidated Balance Sheets as property, plant and equipment.

The original cost of property, plant and equipment includes direct materials, direct labour (including employee benefits), contracted services, attributable capitalized financing costs, asset retirement costs, and direct and indirect overheads that are related to the capital project or program. Indirect overheads include a portion of corporate costs such as finance, treasury, human resources, information technology and executive costs. Overhead costs, including corporate functions and field services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology.

Property, plant and equipment in service consists of transmission, distribution, communication, administration and service assets and land easements. Property, plant and equipment also includes future use assets, such as land, major components and spare parts, and capitalized project development costs associated with deferred capital projects.

Transmission

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware and grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, including transformers, circuit breakers and switches.

Distribution

Distribution assets include assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems.

Communication

Communication assets include fibre optic and microwave radio systems, optical ground wire, towers, telephone equipment and associated buildings.

Administration and Service

Administration and service assets include administrative buildings, personal computers, transport and work equipment, tools and other minor assets.

Easements

Easements include statutory rights of use for transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act, 2002*, as well as other land access rights.

Intangible Assets

Intangible assets separately acquired or internally developed are measured on initial recognition at cost, which comprises purchased software, direct labour (including employee benefits), consulting, engineering, overheads and attributable capitalized financing charges. Following initial recognition, intangible assets are carried at cost, net of any accumulated amortization and accumulated impairment losses. The Company's intangible assets primarily represent major computer applications.

Capitalized Financing Costs

Capitalized financing costs represent interest costs attributable to the construction of property, plant and equipment or development of intangible assets. The financing cost of attributable borrowed funds is capitalized as part of the acquisition cost of such assets.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

The capitalized financing costs are a reduction of financing charges recognized in the Consolidated Statements of Operations and Comprehensive Income. Capitalized financing costs are calculated using the Company's weighted average effective cost of debt.

Construction and Development in Progress

Construction and development in progress consists of the capitalized cost of constructed assets that are not yet complete and which have not yet been placed in service.

Depreciation and Amortization

The cost of property, plant and equipment and intangible assets is depreciated or amortized on a straight-line basis based on the estimated remaining service life of each asset category, except for transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically initiates an external independent review of its property, plant and equipment and intangible asset depreciation and amortization rates, as required by the OEB. Any changes arising from OEB approval of such a review are implemented on a remaining service life basis, consistent with their inclusion in electricity rates. The most recent reviews resulted in changes to rates effective January 1, 2015 and January 1, 2017 for Hydro One Networks' distribution and transmission businesses, respectively. A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Average	Rate	
	Service Life	Range	Average
Property, plant and equipment:			
Transmission	55 years	1% – 3%	2%
Distribution	46 years	1% – 7%	2%
Communication	16 years	1% – 15%	6%
Administration and service	20 years	1% – 20%	6%
Intangible assets	10 years	10%	10%

In accordance with group depreciation practices, the original cost of property, plant and equipment, or major components thereof, and intangible assets that are normally retired, is charged to accumulated depreciation, with no gain or loss being reflected in results of operations. Where a disposition of property, plant and equipment occurs through sale, a gain or loss is calculated based on proceeds and such gain or loss is included in depreciation expense.

Acquisitions and Goodwill

The Company accounts for business acquisitions using the acquisition method of accounting and, accordingly, the assets and liabilities of the acquired entities are primarily measured at their estimated fair value at the date of acquisition. Costs associated with pending acquisitions are expensed as incurred. Goodwill represents the cost of acquired companies that is in excess of the fair value of the net identifiable assets acquired at the acquisition date. Goodwill is not included in rate base.

Goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require. The Company performs a qualitative assessment to determine whether it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount. If the Company determines, as a result of its qualitative assessment, that it is not more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, no further testing is required. If the Company determines, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, a goodwill impairment assessment is performed using a two-step, fair value-based test. The first step compares the fair value of the applicable reporting unit to its carrying amount, including goodwill. If the carrying amount of the applicable reporting unit exceeds its fair value, a second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities using purchase price allocation in order to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and as a charge to results of operations.

Based on assessment performed as at September 30, 2017, the Company has concluded that goodwill was not impaired at December 31, 2017.

Long-Lived Asset Impairment

When circumstances indicate the carrying value of long-lived assets may not be recoverable, the Company evaluates whether the carrying value of such assets, excluding goodwill, has been impaired. For such long-lived assets, the Company evaluates whether impairment may exist by estimating future estimated undiscounted cash flows expected to result from the use and eventual disposition of the asset. When alternative courses of action to recover the carrying amount of a long-lived asset are under consideration, a probability-weighted approach is used to develop estimates of future undiscounted cash flows. If the carrying value of the long-lived asset is not recoverable based on the estimated future undiscounted cash flows, an impairment loss is recorded, measured as the excess of the carrying value of the asset over its fair value. As a result, the asset's carrying value is adjusted to its estimated fair value.

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Within its regulated business, the carrying costs of most of Hydro One's long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable. As at December 31, 2017 and 2016, no asset impairment had been recorded.

Costs of Arranging Debt Financing

For financial liabilities classified as other than held-for-trading, the Company defers the external transaction costs related to obtaining debt financing and presents such amounts net of related debt on the Consolidated Balance Sheets. Deferred debt issuance costs are amortized over the contractual life of the related debt on an effective-interest basis and the amortization is included within financing charges in the Consolidated Statements of Operations and Comprehensive Income. Transaction costs for items classified as held-for-trading are expensed immediately.

Comprehensive Income

Comprehensive income is comprised of net income and OCI. Hydro One presents net income and OCI in a single continuous Consolidated Statement of Operations and Comprehensive Income.

Financial Assets and Liabilities

All financial assets and liabilities are classified into one of the following five categories: held-to-maturity; loans and receivables; held-for-trading; other liabilities; or available-for-sale. Financial assets and liabilities classified as held-for-trading are measured at fair value. All other financial assets and liabilities are measured at amortized cost, except accounts receivable and amounts due from related parties, which are measured at the lower of cost or fair value. Accounts receivable and amounts due from related parties are classified as loans and receivables. The Company considers the carrying amounts of accounts receivable and amounts due from related parties to be reasonable estimates of fair value because of the short time to maturity of these instruments. Provisions for impaired accounts receivable are recognized as adjustments to the allowance for doubtful accounts and are recognized when there is objective evidence that the Company will not be able to collect amounts according to the original terms. All financial instrument transactions are recorded at trade date.

Derivative instruments are measured at fair value. Gains and losses from fair valuation are included within financing charges in the period in which they arise. The Company determines the classification of its financial assets and liabilities at the date of initial recognition. The Company designates certain of its financial assets and liabilities to be held at fair value, when it is consistent with the Company's risk management policy disclosed in Note 16 – Fair Value of Financial Instruments and Risk Management.

Derivative Instruments and Hedge Accounting

The Company closely monitors the risks associated with changes in interest rates on its operations and, where appropriate, uses various instruments to hedge these risks. Certain of these derivative instruments qualify for hedge accounting and are designated as accounting hedges, while others either do not qualify as hedges or have not been designated as hedges (hereinafter referred to as undesignated contracts) as they are part of economic hedging relationships.

The accounting guidance for derivative instruments requires the recognition of all derivative instruments not identified as meeting the normal purchase and sale exemption as either assets or liabilities recorded at fair value on the Consolidated Balance Sheets. For derivative instruments that qualify for hedge accounting, the Company may elect to designate such derivative instruments as either cash flow hedges or fair value hedges. The Company offsets fair value amounts recognized on its Consolidated Balance Sheets related to derivative instruments executed with the same counterparty under the same master netting agreement.

For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, the effective portion of any gain or loss, net of tax, is reported as a component of accumulated OCI (AOCI) and is reclassified to results of operations in the same period or periods during which the hedged transaction affects results of operations. Any gains or losses on the derivative instrument that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in results of operations. For fair value hedges, changes in fair value of both the derivative instrument and the underlying hedged exposure are recognized in the Consolidated Statements of Operations and Comprehensive Income in the current period. The gain or loss on the derivative instrument is included in the same line item as the offsetting gain or loss on the hedged item in the Consolidated Statements of Operations and Comprehensive Income. The changes in fair value of the undesignated derivative instruments are reflected in results of operations.

Embedded derivative instruments are separated from their host contracts and are carried at fair value on the Consolidated Balance Sheets when: (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; (b) the hybrid instrument is not measured at fair value, with changes in fair value recognized in results of operations each period; and (c) the embedded derivative itself meets the definition of a derivative. The Company does not engage in derivative trading or speculative activities and had no embedded derivatives at December 31, 2017 or 2016.

Hydro One periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship where the Company has elected to apply hedge accounting, Hydro One formally documents the relationship between the hedged item and the hedging instrument, the related risk management objective, the nature of the specific risk exposure being hedged, and the method for assessing the effectiveness of the hedging relationship. The Company also assesses, both at the inception of the hedge and on a quarterly basis, whether the hedging instruments are effective in offsetting changes in fair values or cash flows of the hedged items.

Employee Future Benefits

Employee future benefits provided by Hydro One include pension, post-retirement and post-employment benefits. The costs of the Company's pension, post-retirement and post-employment benefit plans are recorded over the periods during which employees render service.

The Company recognizes the funded status of its defined benefit pension, post-retirement and post-employment plans on its Consolidated Balance Sheets and subsequently recognizes the changes in funded status at the end of each reporting year. Defined benefit pension, post-retirement and post-employment plans are considered to be underfunded when the projected benefit obligation exceeds the fair value of the plan assets. Liabilities are recognized on the Consolidated Balance Sheets for any net underfunded projected benefit obligation. The net underfunded projected benefit obligation may be disclosed as a current liability, long-term liability, or both. The current portion is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months exceeds the fair value of plan assets. If the fair value of plan assets exceeds the projected benefit obligation of the plan, an asset is recognized equal to the net overfunded projected benefit obligation. The post-retirement and post-employment benefit plans are unfunded because there are no related plan assets.

Hydro One recognizes its contributions to the defined contribution pension plan as pension expense, with a portion being capitalized as part of labour costs included in capital expenditures. The expensed amount is included in operation, maintenance and administration costs in the Consolidated Statements of Operations and Comprehensive Income.

Defined Benefit Pension

Defined benefit pension costs are recorded on an accrual basis for financial reporting purposes. Pension costs are actuarially determined using the projected benefit method prorated on service and are based on assumptions that reflect management's best estimate of the effect of future events, including future compensation increases. Past service costs from plan amendments and all actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service period of active employees in the plan, and over the estimated remaining life expectancy of inactive employees in the plan. Pension plan assets, consisting primarily of listed equity securities as well as corporate and government debt securities, are fair valued at the end of each year. Hydro One records a regulatory asset equal to the net underfunded projected benefit obligation for its pension plan.

Post-retirement and Post-employment Benefits

Post-retirement and post-employment benefits are recorded and included in rates on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments are amortized to results of operations based on the expected average remaining service period.

For post-retirement benefits, all actuarial gains or losses are deferred using the "corridor" approach. The amount calculated above the "corridor" is amortized to results of operations on a straight-line basis over the expected average remaining service life of active employees in the plan and over the remaining life expectancy of inactive employees in the plan. The post-retirement benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

For post-employment obligations, the associated regulatory liabilities representing actuarial gains on transition to US GAAP are amortized to results of operations based on the "corridor" approach. The actuarial gains and losses on post-employment obligations that are incurred during the year are recognized immediately to results of operations. The post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

All post-retirement and post-employment future benefit costs are attributed to labour and are either charged to results of operations or capitalized as part of the cost of property, plant and equipment and intangible assets.

Stock-Based Compensation

Share Grant Plans

Hydro One measures share grant plans based on fair value of share grants as estimated based on the grant date Hydro One Limited common share price. The costs are recognized in the financial statements using the graded-vesting attribution method for share grant plans that have both a performance condition and a service condition. The Company records a regulatory asset equal to the accrued costs of share grant plans recognized in each period. Costs are transfered from the regulatory asset to labour costs at the time the share grants vest and are issued, and are recovered in rates. Forfeitures are recognized as they occur.

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Deferred Share Unit (DSU) Plans

The Company records the liabilities associated with its Directors' and Management DSU Plans at fair value at each reporting date until settlement, recognizing compensation expense over the vesting period on a straight-line basis. The fair value of the DSU liability is based on the Hydro One Limited common share closing price at the end of each reporting period.

Long-term Incentive Plan (LTIP)

The Company measures the restricted share units (RSUs) and performance share units (PSUs), issued under Hydro One Limited's LTIP, at fair value based on the grant date Hydro One Limited common share price. The related compensation expense is recognized over the vesting period on a straight-line basis. Forfeitures are recognized as they occur.

Loss Contingencies

Hydro One is involved in certain legal and environmental matters that arise in the normal course of business. In the preparation of its Consolidated Financial Statements, management makes judgments regarding the future outcome of contingent events and records a loss for a contingency based on its best estimate when it is determined that such loss is probable and the amount of the loss can be reasonably estimated. Where the loss amount is recoverable in future rates, a regulatory asset is also recorded. When a range estimate for the probable loss exists and no amount within the range is a better estimate than any other amount, the Company records a loss at the minimum amount within the range.

Management regularly reviews current information available to determine whether recorded provisions should be adjusted and whether new provisions are required. Estimating probable losses may require analysis of multiple forecasts and scenarios that often depend on judgments about potential actions by third parties, such as federal, provincial and local courts or regulators. Contingent liabilities are often resolved over long periods of time. Amounts recorded in the Consolidated Financial Statements may differ from the actual outcome once the contingency is resolved. Such differences could have a material impact on future results of operations, financial position and cash flows of the Company.

Provisions are based upon current estimates and are subject to greater uncertainty where the projection period is lengthy. A significant upward or downward trend in the number of claims filed, the nature of the alleged injuries, and the average cost of resolving each claim could change the estimated provision, as could any substantial adverse or favourable verdict at trial. A federal or provincial legislative outcome or structured settlement could also change the estimated liability. Legal fees are expensed as incurred.

Environmental Liabilities

Environmental liabilities are recorded in respect of past contamination when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated. Hydro One records a liability for the estimated future expenditures associated with contaminated land assessment and remediation and for the phase-out and destruction of polychlorinated biphenyl (PCB)-contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. The Company determines the present value with a discount rate equal to its credit-adjusted risk-free interest rate on financial instruments with comparable maturities to the pattern of future environmental expenditures. As the Company anticipates that the future expenditures will continue to be recoverable in future rates, an offsetting regulatory asset has been recorded to reflect the future recovery of these environmental expenditures from customers. Hydro One reviews its estimates of future environmental expenditures annually, or more frequently if there are indications that circumstances have changed.

Asset Retirement Obligations

Asset retirement obligations are recorded for legal obligations associated with the future removal and disposal of long-lived assets. Such obligations may result from the acquisition, construction, development and/or normal use of the asset. Conditional asset retirement obligations are recorded when there is a legal obligation to perform a future asset retirement activity but where the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. In such a case, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement.

When recording an asset retirement obligation, the present value of the estimated future expenditures required to complete the asset retirement activity is recorded in the period in which the obligation is incurred, if a reasonable estimate can be made. In general, the present value of the estimated future expenditures is added to the carrying amount of the associated asset and the resulting asset retirement cost is depreciated over the estimated useful life of the asset. Where an asset is no longer in service when an asset retirement obligation is recorded, the asset retirement cost is recorded in results of operations.

Some of the Company's transmission and distribution assets, particularly those located on unowned easements and rights-of-way, may have asset retirement obligations, conditional or otherwise. The majority of the Company's easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Company expects to use the majority of its facilities in perpetuity, no asset retirement obligations have been recorded for these assets. If, at some future date, a particular facility is shown not to meet the perpetuity assumption, it will be reviewed to determine whether an estimable asset retirement obligation exists. In such a case, an asset retirement obligation would be recorded at that time.

HYDRO ONE INC.
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The Company's asset retirement obligations recorded to date relate to estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities.

3. NEW ACCOUNTING PRONOUNCEMENTS

The following tables present Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board that are applicable to Hydro One:

Recently Adopted Accounting Guidance

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2016-06	March 2016	Contingent call (put) options that are assessed to accelerate the payment of principal on debt instruments need to meet the criteria of being "clearly and closely related" to their debt hosts.	January 1, 2017	No impact upon adoption

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2014-09 2015-14 2016-08 2016-10 2016-12 2016-20 2017-05 2017-10 2017-13 2017-14	May 2014 – November 2017	ASU 2014-09 was issued in May 2014 and provides guidance on revenue recognition relating to the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU 2015-14 deferred the effective date of ASU 2014-09 by one year. Additional ASUs were issued in 2016 and 2017 that simplify transition and provide clarity on certain aspects of the new standard.	January 1, 2018	Hydro One has completed the review of all its revenue streams and has concluded that there will be no material impact upon adoption.
2016-02 2018-01	February 2016 – January 2018	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet. ASU 2018-01 permits an entity to elect an optional practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840.	January 1, 2019	An initial assessment is currently underway encompassing a review of existing leases, which will be followed by a review of relevant contracts. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date.
2016-15	August 2016	The amendments provide guidance for eight specific cash flow issues with the objective of reducing the existing diversity in practice.	January 1, 2018	No material impact
2017-01	January 2017	The amendment clarifies the definition of a business and provides additional guidance on evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses.	January 1, 2018	No material impact
2017-04	January 2017	The amendment removes the second step of the current two-step goodwill impairment test to simplify the process of testing goodwill.	January 1, 2020	Under assessment
2017-07	March 2017	Service cost components of net benefit cost associated with defined benefit plans are required to be reported in the same line as other compensation costs arising from services rendered by the Company's employees. All other components of net benefit cost are to be presented in the income statement separately from the service cost component. Only the service cost component is eligible for capitalization where applicable.	January 1, 2018	Hydro One has applied for a regulatory deferral account to maintain the capitalization of OPEB related costs. As such, there will be no material impact.
2017-09	May 2017	Changes to the terms or conditions of a share-based payment award will require an entity to apply modified accounting unless the modified award meets all conditions stipulated in this ASU.	January 1, 2018	No impact
2017-11	July 2017	When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock.	January 1, 2019	Under assessment
2017-12	August 2017	Amendments will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results.	January 1, 2019	Under assessment

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4. BUSINESS COMBINATIONS

Acquisition of HOSSM

On October 31, 2016, Hydro One acquired HOSSM, an Ontario regulated electricity transmission business operating along the eastern shore of Lake Superior, north and east of Sault Ste. Marie, Ontario from Brookfield Infrastructure Holdings Inc. The total purchase price for HOSSM was approximately $376 million, including the assumption of approximately $150 million in outstanding indebtedness. During 2017, the Company completed the final determination of the fair value of assets acquired and liabilities assumed with no significant changes, which resulted in a total goodwill of approximately $157 million arising from the HOSSM acquisition. The difference between the preliminary and final purchase price allocation to fair value of assets acquired and liabilities related to a $2 million decrease in deferred income tax liabilities which resulted in a corresponding decrease to goodwill. The following table summarizes the final fair value of the assets acquired and liabilities assumed:

(millions of dollars)	
Cash and cash equivalents	5
Property, plant and equipment	221
Intangible assets	1
Regulatory assets	50
Goodwill	157
Working capital	(2)
Long-term debt	(186)
Pension and post-employment benefit liabilities, net	(5)
Deferred income taxes	(15)
	226

Goodwill arising from the HOSSM acquisition consists largely of the synergies and economies of scale expected from combining the operations of Hydro One and HOSSM. HOSSM contributed revenues of $6 million and less than $1 million of net income to the Company’s consolidated financial results for the year ended December 31, 2016. All costs related to the acquisition have been expensed through the Consolidated Statements of Operations and Comprehensive Income. HOSSM’s financial information was not material to the Company’s consolidated financial results for the year ended December 31, 2016 and therefore, has not been disclosed on a pro forma basis.

Agreement to Purchase Orillia Power

On August 15, 2016, the Company reached an agreement to acquire Orillia Power Distribution Corporation (Orillia Power), an electricity distribution company located in Simcoe County, Ontario, from the City of Orillia for approximately $41 million, including the assumption of approximately $15 million in outstanding indebtedness and regulatory liabilities, subject to closing adjustments. The acquisition is subject to regulatory approval by the OEB.

5. DEPRECIATION AND AMORTIZATION

Year ended December 31 *(millions of dollars)*	2017	2016
Depreciation of property, plant and equipment	634	603
Asset removal costs	90	90
Amortization of intangible assets	62	56
Amortization of regulatory assets	24	20
	810	769

6. FINANCING CHARGES

Year ended December 31 *(millions of dollars)*	2017	2016
Interest on long-term debt	450	424
Interest on short-term notes	6	9
Other	12	15
Less: Interest capitalized on construction and development in progress	(56)	(54)
Interest earned on cash and cash equivalents	(1)	(2)
	411	392

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7. INCOME TAXES

Income tax expense differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and the effective tax rates is provided as follows:

Year ended December 31 *(millions of dollars)*	2017	2016
Income before income taxes	837	871
Income taxes at statutory rate of 26.5% (2016 - 26.5%)	222	231
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(55)	(53)
Pension contributions in excess of pension expense	(13)	(16)
Overheads capitalized for accounting but deducted for tax purposes	(17)	(16)
Interest capitalized for accounting but deducted for tax purposes	(15)	(14)
Environmental expenditures	(6)	(5)
Other	1	5
Net temporary differences	(105)	(99)
Net permanent differences	3	3
Total income taxes	120	135

The major components of income tax expense are as follows:

Year ended December 31 *(millions of dollars)*	2017	2016
Current income taxes	24	24
Deferred income taxes	96	111
Total income taxes	120	135
Effective income tax rate	14.3%	15.5%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities expected to be included in the rate-setting process are offset by regulatory assets and liabilities to reflect the anticipated recovery or disposition of these balances within future electricity rates. Deferred income tax assets and liabilities arise from differences between the tax basis and the carrying amounts of the assets and liabilities. At December 31, 2017 and 2016, deferred income tax assets and liabilities consisted of the following:

December 31 *(millions of dollars)*	2017	2016
Deferred income tax assets		
Depreciation and amortization in excess of capital cost allowance	109	477
Non-depreciable capital property	271	271
Post-retirement and post-employment benefits expense in excess of cash payments	558	603
Environmental expenditures	71	74
Non-capital losses	240	213
Tax credit carryforwards	49	27
Investment in subsidiaries	84	75
Other	13	3
	1,395	1,743
Less: valuation allowance	(364)	(352)
Total deferred income tax assets	1,031	1,391
Less: current portion	—	—
	1,031	1,391
Deferred income tax liabilities		
Regulatory amounts that are not recognized for tax purposes	(47)	(153)
Goodwill	(10)	(10)
Capital cost allowance in excess of depreciation and amortization	(74)	(64)
Other	(16)	(11)
Total deferred income tax liabilities	(147)	(238)
Less: current portion	—	—
	(147)	(238)
Net deferred income tax assets	884	1,153

The net deferred income tax assets are presented on the Consolidated Balance Sheets as follows:

December 31 *(millions of dollars)*	2017	2016
Long-term:		
Deferred income tax assets	954	1,213
Deferred income tax liabilities	(70)	(60)
Net deferred income tax assets	884	1,153

The valuation allowance for deferred tax assets as at December 31, 2017 was $364 million (2016 – $352 million). The valuation allowance primarily relates to temporary differences for non-depreciable assets and investments in subsidiaries. As of December 31, 2017 and 2016, the Company had non-capital losses carried forward available to reduce future years' taxable income, which expire as follows:

Year of expiry *(millions of dollars)*	2017	2016
2034	2	2
2035	221	221
2036	558	579
2037	123	—
Total losses	904	802

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8. ACCOUNTS RECEIVABLE

December 31 *(millions of dollars)*	2017	2016
Accounts receivable – billed	297	427
Accounts receivable – unbilled	367	441
Accounts receivable, gross	664	868
Allowance for doubtful accounts	(29)	(35)
Accounts receivable, net	635	833

The following table shows the movements in the allowance for doubtful accounts for the years ended December 31, 2017 and 2016:

Year ended December 31 *(millions of dollars)*	2017	2016
Allowance for doubtful accounts – beginning	(35)	(61)
Write-offs	25	37
Additions to allowance for doubtful accounts	(19)	(11)
Allowance for doubtful accounts – ending	(29)	(35)

9. OTHER CURRENT ASSETS

December 31 *(millions of dollars)*	2017	2016
Regulatory assets *(Note 12)*	46	37
Materials and supplies	18	19
Prepaid expenses and other assets	40	41
	104	97

10. PROPERTY, PLANT AND EQUIPMENT

December 31, 2017 *(millions of dollars)*	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
Transmission	15,509	5,162	989	11,336
Distribution	10,213	3,513	149	6,849
Communication	1,088	742	22	368
Administration and service	1,561	857	46	750
Easements	638	70	—	568
	29,009	10,344	1,206	19,871

December 31, 2016 *(millions of dollars)*	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
Transmission	14,692	4,862	910	10,740
Distribution	9,656	3,305	243	6,594
Communication	1,069	674	9	404
Administration and service	1,632	924	61	769
Easements	628	67	—	561
	27,677	9,832	1,223	19,068

Financing charges capitalized on property, plant and equipment under construction were $54 million in 2017 (2016 – $52 million).

11. INTANGIBLE ASSETS

December 31, 2017 *(millions of dollars)*	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	698	370	41	369
Other	5	5	—	—
	703	375	41	369

December 31, 2016 *(millions of dollars)*	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	621	326	53	348
Other	5	4	—	1
	626	330	53	349

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Financing charges capitalized to intangible assets under development were $2 million in 2017 (2016 – $2 million). The estimated annual amortization expense for intangible assets is as follows: 2018 – $67 million; 2019 – $57 million; 2020 – $40 million; 2021 – $39 million; and 2022 – $36 million.

12. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. Hydro One has recorded the following regulatory assets and liabilities:

December 31 *(millions of dollars)*	2017	2016
Regulatory assets:		
Deferred income tax regulatory asset	1,762	1,587
Pension benefit regulatory asset	981	900
Post-retirement and post-employment benefits	36	243
Environmental	196	204
Share-based compensation	40	31
Debt premium	27	32
Foregone revenue deferral	23	—
Distribution system code exemption	10	10
B2M LP start-up costs	4	5
Retail settlement variance account	—	145
2015-2017 rate rider	—	7
Pension cost variance	—	4
Other	16	14
Total regulatory assets	3,095	3,182
Less: current portion	(46)	(37)
	3,049	3,145
Regulatory liabilities:		
Green Energy expenditure variance	60	69
External revenue variance	46	64
CDM deferral variance	28	54
Pension cost variance	23	—
2015-2017 rate rider	6	—
Deferred income tax regulatory liability	5	4
Other	17	18
Total regulatory liabilities	185	209
Less: current portion	(57)	—
	128	209

Deferred Income Tax Regulatory Asset and Liability

Deferred income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. The Company has recognized regulatory assets and liabilities that correspond to deferred income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Company's income tax expense would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result, the 2017 income tax expense would have been higher by approximately $113 million (2016 – $104 million).

On September 28, 2017, the OEB issued its Decision and Order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Decision). In its Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One's shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a Decision and Order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of Hydro One Networks' transmission deferred income tax regulatory asset of up to approximately $515 million. If the OEB were to apply the same calculation for sharing in Hydro One Networks' 2018-2022 distribution rates, for which a decision is currently outstanding, it would result in an additional impairment of up to approximately $370 million related to Hydro One Networks' distribution deferred income tax regulatory asset. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Decision and filed an appeal with the Divisional Court of Ontario (Appeal). On December 19, 2017, the OEB granted a hearing of the merits of the Motion which is scheduled for mid-February 2018. In both cases, the Company's position is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. The Appeal is being held in abeyance pending the outcome of the Motion. If the Decision is upheld, based on the facts known at

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this time, the exposure from the potential impairments would be a one-time decrease in net income of up to approximately $885 million. Based on the assumptions that the OEB applies established rate making principles in a manner consistent with its past practice and does not exercise its discretion to take other policy considerations into account, management is of the view that it is likely that the Company's Motion will be granted and the aforementioned tax savings will be allocated to the benefit of Hydro One shareholders.

Pension Benefit Regulatory Asset

In accordance with OEB rate orders, pension costs are recovered on a cash basis as employer contributions are paid to the pension fund in accordance with the Pension Benefits Act (Ontario). The Company recognizes the net unfunded status of pension obligations on the Consolidated Balance Sheets with an offset to the associated regulatory asset. A regulatory asset is recognized because management considers it to be probable that pension benefit costs will be recovered in the future through the rate-setting process. The pension benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, OCI would have been lower by $80 million and operation, maintenance and administration expenses would have been higher by $1 million (2016 – OCI higher by $52 million).

Post-Retirement and Post-Employment Benefits

The Company recognizes the net unfunded status of post-retirement and post-employment obligations on the Consolidated Balance Sheets with an incremental offset to the associated regulatory assets. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2017 OCI would have been higher by $207 million (2016 – lower by $3 million).

Environmental

Hydro One records a liability for the estimated future expenditures required to remediate environmental contamination. Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset. In 2017, the environmental regulatory asset increased by $1 million (2016 – decreased by $1 million) to reflect related changes in the Company's PCB liability, and increased by $7 million (2016 – $10 million) due to changes in the land assessment and remediation liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. The OEB has the discretion to examine and assess the prudency and the timing of recovery of all of Hydro One's actual environmental expenditures. In the absence of rate-regulated accounting, 2017 operation, maintenance and administration expenses would have been higher by $8 million (2016 – $9 million). In addition, 2017 amortization expense would have been lower by $24 million (2016 – $20 million), and 2017 financing charges would have been higher by $8 million (2016 – $8 million).

Share-based Compensation

The Company recognizes costs associated with share grant plans in a regulatory asset as management considers it probable that share grant plans' costs will be recovered in the future through the rate-setting process. In the absence of rate-regulated accounting, 2017 operation, maintenance and administration expenses would have been higher by $7 million (2016 – $9 million). Share grant costs are transferred to labour costs at the time the share grants vest and are issued, and are recovered in rates in accordance with recovery of said labour costs.

Debt Premium

The value of debt assumed in the acquisition of HOSSM has been recorded at fair value in accordance with US GAAP - Business Combinations. The OEB allows for recovery of interest at the coupon rate of the Senior Secured Bonds and a regulatory asset has been recorded for the difference between the fair value and face value of this debt. The debt premium is recovered over the remaining term of the debt.

Foregone Revenue Deferral

As part of its September 2017 decision on Hydro One Networks' transmission rate application for 2017 and 2018 rates, the OEB approved the foregone revenue account to record the difference between revenue earned under the rates approved as part of the decision, effective January 1, 2017, and revenue earned under the interim rates until the approved 2017 rates were implemented. The OEB approved a similar account for B2M LP in June 2017 to record the difference between revenue earned under the newly approved rates, effective January 1, 2017, and the revenue recorded under the interim 2017 rates. The balances of these accounts will be returned to or recovered from ratepayers, respectively, over a one-year period ending December 31, 2018. The draft rate order submitted by Hydro One Networks was approved by the OEB in November, 2017. This draft rate order reflects the September 2017 decision, including a reduction of the amount of cash taxes approved for recovery in transmission rates due to the OEB's basis to share the savings resulting from a deferred tax asset with ratepayers. The Company's position in the aforementioned Motion is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and

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ratepayers. Therefore, the Company has also reflected the impact of the Company's position with respect to the Motion in the Foregone Revenue Deferral account. The timing for recovery of this impact will be determined as part of the outcome of the Motion.

Distribution System Code (DSC) Exemption

In June 2010, Hydro One Networks filed an application with the OEB regarding the OEB's new cost responsibility rules contained in the OEB's October 2009 Notice of Amendment to the DSC, with respect to the connection of certain renewable generators that were already connected or that had received a connection impact assessment prior to October 21, 2009. The application sought approval to record and defer the unanticipated costs incurred by Hydro One Networks that resulted from the connection of certain renewable generation facilities. The OEB ruled that identified specific expenditures can be recorded in a deferral account subject to the OEB's review in subsequent Hydro One Networks distribution applications. In March 2015, the OEB approved the disposition of the DSC exemption deferral account balance at December 31, 2013, including accrued interest, which was recovered through the 2015-2017 Rate Rider. In addition, the OEB also approved Hydro One's request to discontinue this deferral account. There were no additions to this regulatory account in 2017 or 2016. The remaining balance in this account at December 31, 2016, including accrued interest, was requested for recovery through the 2018-2022 distribution rate application.

B2M LP Start-up Costs

In December 2015, OEB issued its decision on B2M LP's application for 2015-2019 and as part of the decision approved the recovery of $8 million of start-up costs relating to B2M LP. The costs are being recovered over a four-year period which began in 2016, in accordance with the OEB decision.

Retail Settlement Variance Account (RSVA)

Hydro One has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. In March 2015, the OEB approved the disposition of the total RSVA balance accumulated from January 2012 to December 2013, including accrued interest, to be recovered through the 2015-2017 Rate Rider.

2015-2017 Rate Rider

In March 2015, as part of its decision on Hydro One Networks' distribution rate application for 2015-2019, the OEB approved the disposition of certain deferral and variance accounts, including RSVAs and accrued interest. The 2015-2017 Rate Rider account included the balances approved for disposition by the OEB and was disposed of in accordance with the OEB decision over a 32-month period ended on December 31, 2017. The balance remaining in the account represents an over-collection to be returned to ratepayers in a future rate application. We have not requested recovery of the remaining balance of this account in the current distribution rate application.

Pension Cost Variance

A pension cost variance account was established for Hydro One Networks' transmission and distribution businesses to track the difference between the actual pension expenses incurred and estimated pension costs approved by the OEB. The balance in this regulatory account reflects the deficit of pension costs paid as compared to OEB-approved amounts. In March 2015, the OEB approved the disposition of the distribution business portion of the total pension cost variance account at December 31, 2013, including accrued interest, which was recovered through the 2015-2017 Rate Rider. In September 2017, the OEB approved the disposition of the transmission business portion of the total pension cost variance account as at December 31, 2015, including accrued interest, which is being recovered over a two-year period ending December 31, 2018. In the absence of rate-regulated accounting, 2017 revenue would have been higher by $24 million (2016 – $25 million).

Green Energy Expenditure Variance

In April 2010, the OEB requested the establishment of deferral accounts which capture the difference between the revenue recorded on the basis of Green Energy Plan expenditures incurred and the actual recoveries received.

External Revenue Variance

In May 2009, the OEB approved forecasted amounts related to export service revenue, external revenue from secondary land use, and external revenue from station maintenance and engineering and construction work. In November 2012, the OEB again approved forecasted amounts related to these revenue categories and extended the scope to encompass all other external revenues. The external revenue variance account balance reflects the excess of actual external revenues compared to the OEB-approved forecasted amounts. In September 2017, the OEB approved the disposition of the external revenue variance account as at December 31, 2015, including accrued interest, which is being returned to customers over a two-year period ending December 31, 2018.

CDM Deferral Variance Account

As part of Hydro One Networks' application for 2013 and 2014 transmission rates, Hydro One agreed to establish a new regulatory deferral variance account to track the impact of actual Conservation and Demand Management (CDM) and demand response results on the load forecast compared to the estimated load forecast included in the revenue requirement. The balance in the CDM deferral variance account relates to the actual 2013 and 2014 CDM compared to the amounts included in 2013 and 2014 revenue

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requirements, respectively. There were no additions to this regulatory account in 2017 or 2016. The balance of the account at December 31, 2015, including interest, was approved for disposition in the 2017-2018 transmission rate decision and is currently being drawn down over a 2-year period ending December 31, 2018.

13. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

December 31 *(millions of dollars)*	2017	2016
Accounts payable	173	177
Accrued liabilities	563	651
Accrued interest	99	105
Regulatory liabilities *(Note 12)*	57	—
	892	933

14. OTHER LONG-TERM LIABILITIES

December 31 *(millions of dollars)*	2017	2016
Post-retirement and post-employment benefit liability *(Note 18)*	1,507	1,628
Pension benefit liability *(Note 18)*	981	900
Environmental liabilities *(Note 19)*	168	177
Due to related parties *(Note 26)*	39	26
Asset retirement obligations *(Note 20)*	9	9
Long-term accounts payable and other liabilities	30	25
	2,734	2,765

15. DEBT AND CREDIT AGREEMENTS

Short-Term Notes and Credit Facilities

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under its Commercial Paper Program which has a maximum authorized amount of $1.5 billion. These short-term notes are denominated in Canadian dollars with varying maturities up to 365 days. The Commercial Paper Program is supported by the Company's committed revolving credit facilities totalling $2.3 billion. In June 2017, the maturity date of Hydro One's $2.3 billion credit facilities was extended from June 2021 to June 2022.

The Company may use the credit facilities for working capital and general corporate purposes. If used, interest on the credit facilities would apply based on Canadian benchmark rates. The obligation of each lender to make any credit extension under its credit facility is subject to various conditions including that no event of default has occurred or would result from such credit extension.

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Long-Term Debt

The following table presents long-term debt outstanding at December 31, 2017 and 2016:

December 31 *(millions of dollars)*	2017	2016
5.18% Series 13 notes due 2017	—	600
2.78% Series 28 notes due 2018	750	750
Floating-rate Series 31 notes due 2019[1]	228	228
1.48% Series 37 notes due 20192	500	500
4.40% Series 20 notes due 2020	300	300
1.62% Series 33 notes due 20202	350	350
1.84% Series 34 notes due 2021	500	500
3.20% Series 25 notes due 2022	600	600
2.77% Series 35 notes due 2026	500	500
7.35% Debentures due 2030	400	400
6.93% Series 2 notes due 2032	500	500
6.35% Series 4 notes due 2034	385	385
5.36% Series 9 notes due 2036	600	600
4.89% Series 12 notes due 2037	400	400
6.03% Series 17 notes due 2039	300	300
5.49% Series 18 notes due 2040	500	500
4.39% Series 23 notes due 2041	300	300
6.59% Series 5 notes due 2043	315	315
4.59% Series 29 notes due 2043	435	435
4.17% Series 32 notes due 2044	350	350
5.00% Series 11 notes due 2046	325	325
3.91% Series 36 notes due 2046	350	350
3.72% Series 38 notes due 2047	450	450
4.00% Series 24 notes due 2051	225	225
3.79% Series 26 notes due 2062	310	310
4.29% Series 30 notes due 2064	50	50
Hydro One long-term debt (a)	9,923	10,523
6.6% Senior Secured Bonds due 2023 (Face value - $110 million)	136	144
4.6% Note Payable due 2023 (Face value - $36 million)	40	40
HOSSM long-term debt (b)	176	184
	10,099	10,707
Add: Net unamortized debt premiums	14	15
Add: Unrealized mark-to-market gain[2]	(9)	(2)
Less: Deferred debt issuance costs	(37)	(40)
Total long-term debt	10,067	10,680

[1] The interest rates of the floating-rate notes are referenced to the three-month Canadian dollar bankers' acceptance rate, plus a margin.

[2] The unrealized mark-to-market net gain relates to $50 million of the Series 33 notes due 2020 and $500 million Series 37 notes due 2019. The unrealized mark-to-market net gain is offset by a $9 million (2016 – $2 million) unrealized mark-to-market net loss on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges.

(a) Hydro One long-term debt

At December 31, 2017, long-term debt of $9,923 million (2016 - $10,523 million) was outstanding, the majority of which was issued under Hydro One's Medium Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in December 2015 is $3.5 billion. At December 31 2017, $1.2 billion remained available for issuance until January 2018. In 2017, no long-term debt was issued and $600 million of long-term debt was repaid under the MTN Program (2016 - $2,300 million issued and $500 million repaid).

(b) HOSSM long-term debt

At December 31, 2017, long-term debt of $176 million (2016 - $184 million), with a face value of $146 million (2016 - $148 million) was held by HOSSM. In 2017, $2 million of HOSSM long-term debt was repaid (2016 - $2 million).

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The total long-term debt is presented on the consolidated balance sheets as follows:

December 31 *(millions of dollars)*	2017	2016
Current liabilities:		
Long-term debt payable within one year	752	602
Long-term liabilities:		
Long-term debt	9,315	10,078
Total long-term debt	10,067	10,680

Principal and Interest Payments

Principal repayments and related weighted average interest rates are summarized by the number of years to maturity in the following table:

Years to Maturity	Long-term Debt Principal Repayments *(millions of dollars)*	Weighted Average Interest Rate *(%)*
1 year	752	2.8
2 years	731	1.6
3 years	653	2.9
4 years	503	1.9
5 years	604	3.2
	3,243	2.5
6 – 10 years	631	3.5
Over 10 years	6,195	5.2
	10,069	4.2

Interest payment obligations related to long-term debt are summarized by year in the following table:

Year	Interest Payments *(millions of dollars)*
2018	426
2019	402
2020	384
2021	370
2022	355
	1,937
2023-2027	1,672
2028+	4,081
	7,690

16. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition focuses on an exit price, which is the price that would be received in the sale of an asset or the amount that would be paid to transfer a liability.

Hydro One classifies its fair value measurements based on the following hierarchy, as prescribed by the accounting guidance for fair value, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that Hydro One has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

Level 2 inputs are those other than quoted market prices that are observable, either directly or indirectly, for an asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest-rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates. A Level 2 measurement cannot have more than an insignificant portion of the valuation based on unobservable inputs.

Level 3 inputs are any fair value measurements that include unobservable inputs for the asset or liability for more than an insignificant portion of the valuation. A Level 3 measurement may be based primarily on Level 2 inputs.

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Non-Derivative Financial Assets and Liabilities

At December 31, 2017 and 2016, the Company's carrying amounts of cash and cash equivalents, accounts receivable, due from related parties, bank indebtedness, short-term notes payable, accounts payable, and due to related parties are representative of fair value due to the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at December 31, 2017 and 2016 are as follows:

December 31 *(millions of dollars)*	2017 Carrying Value	2017 Fair Value	2016 Carrying Value	2016 Fair Value
$50 million of MTN Series 33 notes	49	49	50	50
$500 million MTN Series 37 notes	492	492	498	498
Other notes and debentures	9,526	11,027	10,132	11,462
Long-term debt, including current portion	10,067	11,568	10,680	12,010

Fair Value Measurements of Derivative Instruments

At December 31, 2017, Hydro One had interest-rate swaps in the amount of $550 million (2016 – $550 million) that were used to convert fixed-rate debt to floating-rate debt. These swaps are classified as fair value hedges. Hydro One's fair value hedge exposure was approximately 6% (2016 – 5%) of its total long-term debt. At December 31, 2017, Hydro One had the following interest-rate swaps designated as fair value hedges:

- a $50 million fixed-to-floating interest-rate swap agreement to convert $50 million of the $350 million MTN Series 33 notes maturing April 30, 2020 into three-month variable rate debt; and
- two $125 million and one $250 million fixed-to-floating interest-rate swap agreements to convert the $500 million MTN Series 37 notes maturing November 18, 2019 into three-month variable rate debt.

At December 31, 2017 and 2016, the Company had no interest-rate swaps classified as undesignated contracts.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at December 31, 2017 and 2016 is as follows:

December 31, 2017 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Liabilities:					
Bank indebtedness	3	3	3	—	—
Short-term notes payable	926	926	926	—	—
Long-term debt, including current portion	10,067	11,568	—	11,568	—
Derivative instruments					
Fair value hedges – interest-rate swaps	9	9	9	—	—
	11,005	12,506	938	11,568	—

December 31, 2016 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	48	48	48	—	—
	48	48	48	—	—
Liabilities:					
Short-term notes payable	469	469	469	—	—
Long-term debt, including current portion	10,680	12,010	—	12,010	—
Derivative instruments					
Fair value hedges – interest-rate swaps	2	2	2	—	—
	11,151	12,481	471	12,010	—

Cash and cash equivalents include cash and short-term investments. The carrying values are representative of fair value because of the short-term nature of these instruments.

The fair value of the hedged portion of the long-term debt is primarily based on the present value of future cash flows using a swap yield curve to determine the assumption for interest rates. The fair value of the unhedged portion of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

There were no transfers between any of the fair value levels during the years ended December 31, 2017 or 2016.

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Risk Management

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

Market risk refers primarily to the risk of loss which results from changes in costs, foreign exchange rates and interest rates. The Company is exposed to fluctuations in interest rates as its regulated return on equity is derived using a formulaic approach that takes anticipated interest rates into account. The Company is not currently exposed to material commodity price risk or material foreign exchange risk.

The Company uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. The Company also uses derivative financial instruments to manage interest-rate risk. The Company utilizes interest-rate swaps, which are typically designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt. The Company may also utilize interest-rate derivative instruments to lock in interest-rate levels in anticipation of future financing.

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a significant decrease in Hydro One's net income for the years ended December 31, 2017 and 2016.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Consolidated Statements of Operations and Comprehensive Income. The net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the years ended December 31, 2017 and 2016 was not material.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At December 31, 2017 and 2016, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a material amount of revenue from any single customer. At December 31, 2017 and 2016, there was no material accounts receivable balance due from any single customer.

At December 31, 2017, the Company's provision for bad debts was $29 million (2016 – $35 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At December 31, 2017, approximately 5% (2016 – 6%) of the Company's net accounts receivable were outstanding for more than 60 days.

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly rated counterparties; limiting total exposure levels with individual counterparties; entering into master agreements which enable net settlement and the contractual right of offset; and monitoring the financial condition of counterparties. The Company monitors current credit exposure to counterparties both on an individual and an aggregate basis. The Company's credit risk for accounts receivable is limited to the carrying amounts on the Consolidated Balance Sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At December 31, 2017 and 2016, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At December 31, 2017, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with four financial institutions as the counterparties.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One meets its short-term liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, and the revolving standby credit facilities. The short-term liquidity under the Commercial Paper Program, revolving standby credit facilities, and anticipated levels of funds from operations are expected to be sufficient to fund normal operating requirements.

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17. CAPITAL MANAGEMENT

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. In order to ensure ongoing access to capital, the Company targets to maintain strong credit quality. At December 31, 2017 and 2016, the Company's capital structure was as follows:

December 31 *(millions of dollars)*	2017	2016
Long-term debt payable within one year	752	602
Short-term notes payable	926	469
Bank indebtedness	3	—
Less: cash and cash equivalents	—	(48)
	1,681	1,023
Long-term debt	9,315	10,078
Preferred shares	486	—
Common shares	4,856	5,391
Retained earnings	5,183	4,487
Total capital	21,521	20,979

Hydro One and HOSSM have customary covenants typically associated with long-term debt. Hydro One's long-term debt and credit facility covenants limit permissible debt to 75% of its total capitalization, limit the ability to sell assets and impose a negative pledge provision, subject to customary exceptions. At December 31, 2017, the Company was in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

18. PENSION AND POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

Hydro One has a defined benefit pension plan (Pension Plan), a defined contribution pension plan (DC Plan), a supplemental pension plan (Supplemental Plan), and post-retirement and post-employment benefit plans.

DC Plan

Hydro One established a DC Plan effective January 1, 2016. The DC Plan covers eligible management employees hired on or after January 1, 2016, as well as management employees hired before January 1, 2016 who were not eligible or had not irrevocably elected to join the Pension Plan as of September 30, 2015. Members of the DC Plan have an option to contribute 4%, 5% or 6% of their pensionable earnings, with matching contributions by Hydro One.

Hydro One contributions to the DC Plan for the year ended December 31, 2017 were $1 million (2016 – less than $1 million). At December 31, 2017, Company contributions payable included in accrued liabilities on the Consolidated Balance Sheets were less than $1 million (2016 – less than $1 million).

Pension Plan, Supplemental Plan, and Post-Retirement and Post-Employment Plans

The Pension Plan is a defined benefit contributory plan which covers eligible regular employees of Hydro One and its subsidiaries. The Pension Plan provides benefits based on highest three-year average pensionable earnings. For management employees who commenced employment on or after January 1, 2004, and for The Society of Energy Professionals (The Society)-represented staff hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation. Membership in the Pension Plan was closed to management employees who were not eligible or had not irrevocably elected to join the Pension Plan as of September 30, 2015. These employees are eligible to join the DC Plan.

Company and employee contributions to the Pension Plan are based on actuarial valuations performed at least every three years. Annual Pension Plan contributions for 2017 of $87 million (2016 – $108 million) were based on an actuarial valuation effective December 31, 2016 (2016 - based on an actuarial valuation effective December 31, 2015) and the level of pensionable earnings. Estimated annual Pension Plan contributions for 2018 and 2019 are approximately $71 million for each year based on the actuarial valuation as at December 31, 2016 and projected levels of pensionable earnings. Future minimum contributions beyond 2019 will be based on an actuarial valuation effective no later than December 31, 2019. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash.

The Supplemental Plan provides members of the Pension Plan with benefits that would have been earned and payable under the Pension Plan but for limitations imposed by the *Income Tax Act* (Canada). The Supplemental Plan obligation is included with other post-retirement and post-employment benefit obligations on the Consolidated Balance Sheets.

Hydro One recognizes the overfunded or underfunded status of the Pension Plan, and post-retirement and post-employment benefit plans (Plans) as an asset or liability on its Consolidated Balance Sheets, with offsetting regulatory assets and liabilities as appropriate. The underfunded benefit obligations for the Plans, in the absence of regulatory accounting, would be recognized in AOCI. The impact of changes in assumptions used to measure pension, post-retirement and post-employment benefit obligations is generally

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recognized over the expected average remaining service period of the employees. The measurement date for the Plans is December 31.

Year ended December 31 *(millions of dollars)*	Pension Benefits 2017	Pension Benefits 2016	Post-Retirement and Post-Employment Benefits 2017	Post-Retirement and Post-Employment Benefits 2016
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	7,774	7,683	1,676	1,591
Current service cost	147	144	48	41
Employee contributions	49	45	—	—
Interest cost	304	308	67	66
Benefits paid	(368)	(354)	(44)	(43)
Net actuarial loss (gain)	352	(52)	(195)	14
Change due to employees transfer	—	—	—	7
Projected benefit obligation, end of year	8,258	7,774	1,552	1,676
Change in plan assets				
Fair value of plan assets, beginning of year	6,874	6,731	—	—
Actual return on plan assets	662	370	—	—
Benefits paid	(368)	(354)	(34)	(43)
Employer contributions	87	108	34	43
Employee contributions	49	45	—	—
Administrative expenses	(27)	(26)	—	—
Fair value of plan assets, end of year	7,277	6,874	—	—
Unfunded status	981	900	1,552	1,676

Hydro One presents its benefit obligations and plan assets net on its Consolidated Balance Sheets as follows:

December 31 *(millions of dollars)*	Pension Benefits 2017	Pension Benefits 2016	Post-Retirement and Post-Employment Benefits 2017	Post-Retirement and Post-Employment Benefits 2016
Other assets[1]	1	1	—	—
Accrued liabilities	—	—	52	55
Pension benefit liability	981	900	—	—
Post-retirement and post-employment benefit liability[2]	—	—	1,507	1,628
Net unfunded status	980	899	1,559	1,683

[1] Represents the funded status of HOSSM defined benefit pension plan.
[2] Includes $7 million (2016 – $7 million) relating to HOSSM post-employment benefit plans.

The funded or unfunded status of the pension, post-retirement and post-employment benefit plans refers to the difference between the fair value of plan assets and the projected benefit obligations for the Plans. The funded/unfunded status changes over time due to several factors, including contribution levels, assumed discount rates and actual returns on plan assets.

The following table provides the projected benefit obligation (PBO), accumulated benefit obligation (ABO) and fair value of plan assets for the Pension Plan:

December 31 *(millions of dollars)*	2017	2016
PBO	8,258	7,774
ABO	7,614	7,094
Fair value of plan assets	7,277	6,874

On an ABO basis, the Pension Plan was funded at 96% at December 31, 2017 (2016 – 97%). On a PBO basis, the Pension Plan was funded at 88% at December 31, 2017 (2016 – 88%). The ABO differs from the PBO in that the ABO includes no assumption about future compensation levels.

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Components of Net Periodic Benefit Costs

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2017 and 2016 for the Pension Plan:

Year ended December 31 *(millions of dollars)*	2017	2016
Current service cost	147	144
Interest cost	304	308
Expected return on plan assets, net of expenses	(442)	(432)
Amortization of actuarial losses	79	96
Net periodic benefit costs	88	116
Charged to results of operations[1]	37	45

[1] The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the year ended December 31, 2017, pension costs of $85 million (2016 – $105 million) were attributed to labour, of which $37 million (2016 – $45 million) was charged to operations, and $48 million (2016 – $60 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2017 and 2016 for the post-retirement and post-employment benefit plans:

Year ended December 31 *(millions of dollars)*	2017	2016
Current service cost	48	41
Interest cost	67	66
Amortization of actuarial losses	16	15
Net periodic benefit costs	131	122
Charged to results of operations	58	53

Assumptions

The measurement of the obligations of the Plans and the costs of providing benefits under the Plans involves various factors, including the development of valuation assumptions and accounting policy elections. When developing the required assumptions, the Company considers historical information as well as future expectations. The measurement of benefit obligations and costs is impacted by several assumptions including the discount rate applied to benefit obligations, the long-term expected rate of return on plan assets, Hydro One's expected level of contributions to the Plans, the incidence of mortality, the expected remaining service period of plan participants, the level of compensation and rate of compensation increases, employee age, length of service, and the anticipated rate of increase of health care costs, among other factors. The impact of changes in assumptions used to measure the obligations of the Plans is generally recognized over the expected average remaining service period of the plan participants. In selecting the expected rate of return on plan assets, Hydro One considers historical economic indicators that impact asset returns, as well as expectations regarding future long-term capital market performance, weighted by target asset class allocations. In general, equity securities, real estate and private equity investments are forecasted to have higher returns than fixed-income securities.

The following weighted average assumptions were used to determine the benefit obligations at December 31, 2017 and 2016:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Year ended December 31	2017	2016	2017	2016
Significant assumptions:				
Weighted average discount rate	3.40%	3.90%	3.40%	3.90%
Rate of compensation scale escalation (long-term)	2.50%	2.50%	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%	2.00%	2.00%
Rate of increase in health care cost trends[1]	—	—	4.04%	4.36%

[1] 5.26% per annum in 2018, grading down to 4.04% per annum in and after 2031 (2016 – 6.25% in 2017, grading down to 4.36% per annum in and after 2031).

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

The following weighted average assumptions were used to determine the net periodic benefit costs for the years ended December 31, 2017 and 2016. Assumptions used to determine current year-end benefit obligations are the assumptions used to estimate the subsequent year's net periodic benefit costs.

Year ended December 31	2017	2016
Pension Benefits:		
Weighted average expected rate of return on plan assets	6.50%	6.50%
Weighted average discount rate	3.90%	4.00%
Rate of compensation scale escalation (long-term)	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%
Average remaining service life of employees *(years)*	15	15
Post-Retirement and Post-Employment Benefits:		
Weighted average discount rate	3.90%	4.10%
Rate of compensation scale escalation (long-term)	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%
Average remaining service life of employees *(years)*	15.2	15.3
Rate of increase in health care cost trends[1]	4.36%	4.36%

[1] 6.25% per annum in 2017, grading down to 4.36% per annum in and after 2031 (2016 – 6.38% in 2016, grading down to 4.36% per annum in and after 2031).

The discount rate used to determine the current year pension obligation and the subsequent year's net periodic benefit costs is based on a yield curve approach. Under the yield curve approach, expected future benefit payments for each plan are discounted by a rate on a third-party bond yield curve corresponding to each duration. The yield curve is based on "AA" long-term corporate bonds. A single discount rate is calculated that would yield the same present value as the sum of the discounted cash flows.

The effect of a 1% change in health care cost trends on the projected benefit obligation for the post-retirement and post-employment benefits at December 31, 2017 and 2016 is as follows:

December 31 *(millions of dollars)*	2017	2016
Projected benefit obligation:		
Effect of a 1% increase in health care cost trends	247	286
Effect of a 1% decrease in health care cost trends	(188)	(219)

The effect of a 1% change in health care cost trends on the service cost and interest cost for the post-retirement and post-employment benefits for the years ended December 31, 2017 and 2016 is as follows:

Year ended December 31 *(millions of dollars)*	2017	2016
Service cost and interest cost:		
Effect of a 1% increase in health care cost trends	28	22
Effect of a 1% decrease in health care cost trends	(20)	(16)

The following approximate life expectancies were used in the mortality assumptions to determine the projected benefit obligations for the pension and post-retirement and post-employment plans at December 31, 2017 and 2016:

December 31, 2017				December 31, 2016			
Life expectancy at 65 for a member currently at				Life expectancy at 65 for a member currently at			
Age 65		Age 45		Age 65		Age 45	
Male	Female	Male	Female	Male	Female	Male	Female
22	24	23	24	22	24	23	24

Estimated Future Benefit Payments

At December 31, 2017, estimated future benefit payments to the participants of the Plans were:

(millions of dollars)	Pension Benefits	Post-Retirement and Post-Employment Benefits
2018	326	53
2019	335	54
2020	342	56
2021	350	57
2022	358	58
2023 through to 2027	1,886	311
Total estimated future benefit payments through to 2027	3,597	589

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Components of Regulatory Assets

A portion of actuarial gains and losses and prior service costs is recorded within regulatory assets on Hydro One's Consolidated Balance Sheets to reflect the expected regulatory inclusion of these amounts in future rates, which would otherwise be recorded in OCI. The following table provides the actuarial gains and losses and prior service costs recorded within regulatory assets:

Year ended December 31 *(millions of dollars)*	2017	2016
Pension Benefits:		
Actuarial loss (gain) for the year	159	35
Amortization of actuarial losses	(79)	(96)
	80	(61)
Post-Retirement and Post-Employment Benefits:		
Actuarial loss (gain) for the year	(195)	14
Amortization of actuarial losses	(16)	(15)
Amounts not subject to regulatory treatment	4	4
	(207)	3

The following table provides the components of regulatory assets that have not been recognized as components of net periodic benefit costs for the years ended December 31, 2017 and 2016:

Year ended December 31 *(millions of dollars)*	2017	2016
Pension Benefits:		
Actuarial loss	981	900
Post-Retirement and Post-Employment Benefits:		
Actuarial loss	36	243

The following table provides the components of regulatory assets at December 31 that are expected to be amortized as components of net periodic benefit costs in the following year:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
December 31 *(millions of dollars)*	2017	2016	2017	2016
Actuarial loss	84	79	2	6

Pension Plan Assets

Investment Strategy

On a regular basis, Hydro One evaluates its investment strategy to ensure that Pension Plan assets will be sufficient to pay Pension Plan benefits when due. As part of this ongoing evaluation, Hydro One may make changes to its targeted asset allocation and investment strategy. The Pension Plan is managed at a net asset level. The main objective of the Pension Plan is to sustain a certain level of net assets in order to meet the pension obligations of the Company. The Pension Plan fulfills its primary objective by adhering to specific investment policies outlined in its Summary of Investment Policies and Procedures (SIPP), which is reviewed and approved by the Human Resource Committee of Hydro One's Board of Directors. The Company manages net assets by engaging knowledgeable external investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIPP. The performance of the managers is monitored through a governance structure. Increases in net assets are a direct result of investment income generated by investments held by the Pension Plan and contributions to the Pension Plan by eligible employees and by the Company. The main use of net assets is for benefit payments to eligible Pension Plan members.

Pension Plan Asset Mix

At December 31, 2017, the Pension Plan target asset allocations and weighted average asset allocations were as follows:

	Target Allocation (%)	Pension Plan Assets (%)
Equity securities	55	60
Debt securities	35	31
Other[1]	10	9
	100	100

[1] Other investments include real estate and infrastructure investments.

At December 31, 2017, the Pension Plan held $11 million (2016 – $11 million) Hydro One corporate bonds and $415 million (2016 – $450 million) of debt securities of the Province.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Concentrations of Credit Risk

Hydro One evaluated its Pension Plan's asset portfolio for the existence of significant concentrations of credit risk as at December 31, 2017 and 2016. Concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, concentrations in a type of industry, and concentrations in individual funds. At December 31, 2017 and 2016, there were no significant concentrations (defined as greater than 10% of plan assets) of risk in the Pension Plan's assets.

The Pension Plan's Statement of Investment Beliefs and Guidelines provides guidelines and restrictions for eligible investments taking into account credit ratings, maximum investment exposure and other controls in order to limit the impact of this risk. The Pension Plan manages its counterparty credit risk with respect to bonds by investing in investment-grade and government bonds and with respect to derivative instruments by transacting only with highly rated financial institutions, and also by ensuring that exposure is diversified across counterparties. The risk of default on transactions in listed securities is considered minimal, as the trade will fail if either party to the transaction does not meet its obligation.

Fair Value Measurements

The following tables present the Pension Plan assets measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy at December 31, 2017 and 2016:

December 31, 2017 *(millions of dollars)*	Level 1	Level 2	Level 3	Total
Pooled funds	—	16	549	565
Cash and cash equivalents	153	—	—	153
Short-term securities	—	109	—	109
Derivative instruments	—	5	—	5
Corporate shares – Canadian	921	—	—	921
Corporate shares – Foreign	3,307	125	—	3,432
Bonds and debentures – Canadian	—	1,879	—	1,879
Bonds and debentures – Foreign	—	194	—	194
Total fair value of plan assets[1]	4,381	2,328	549	7,258

[1] At December 31, 2017, the total fair value of Pension Plan assets and liabilities excludes $28 million of interest and dividends receivable, $10 million of pension administration expenses payable, $1 million of sold investments receivable and $1 million of purchased investments payable.

December 31, 2016 *(millions of dollars)*	Level 1	Level 2	Level 3	Total
Pooled funds	—	20	425	445
Cash and cash equivalents	146	—	—	146
Short-term securities	—	127	—	127
Corporate shares – Canadian	911	—	—	911
Corporate shares – Foreign	2,985	113	—	3,098
Bonds and debentures – Canadian	—	1,943	—	1,943
Bonds and debentures – Foreign	—	193	—	193
Total fair value of plan assets[1]	4,042	2,396	425	6,863

[1] At December 31, 2016, the total fair value of Pension Plan assets excludes $27 million of interest and dividends receivable, $15 million of purchased investments payable, $9 million of pension administration expenses payable, and $7 million of sold investments receivable.

See note 16 - Fair Value of Financial Instruments and Risk Management for a description of levels within the fair value hierarchy.

Changes in the Fair Value of Financial Instruments Classified in Level 3

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the years ended December 31, 2017 and 2016. The Pension Plan classifies financial instruments as Level 3 when the fair value is measured based on at least one significant input that is not observable in the markets or due to lack of liquidity in certain markets. The gains and losses presented in the table below may include changes in fair value based on both observable and unobservable inputs.

Year ended December 31 *(millions of dollars)*	2017	2016
Fair value, beginning of year	425	301
Realized and unrealized gains	(31)	23
Purchases	171	151
Sales and disbursements	(16)	(50)
Fair value, end of year	549	425

There were no significant transfers between any of the fair value levels during the years ended December 31, 2017 and 2016.

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The Company performs sensitivity analysis for fair value measurements classified in Level 3, substituting the unobservable inputs with one or more reasonably possible alternative assumptions. This sensitivity analysis resulted in negligible changes in the fair value of financial instruments classified in this level.

Valuation Techniques Used to Determine Fair Value

Pooled funds mainly consist of private equity, real estate and infrastructure investments. Private equity investments represent private equity funds that invest in operating companies that are not publicly traded on a stock exchange. Investment strategies in private equity include limited partnerships in businesses that are characterized by high internal growth and operational efficiencies, venture capital, leveraged buyouts and special situations such as distressed investments. Real estate and infrastructure investments represent funds that invest in real assets which are not publicly traded on a stock exchange. Investment strategies in real estate include limited partnerships that seek to generate a total return through income and capital growth by investing primarily in global and Canadian limited partnerships. Investment strategies in infrastructure include limited partnerships in core infrastructure assets focusing on assets that generate stable, long-term cash flows and deliver incremental returns relative to conventional fixed-income investments. Private equity, real estate and infrastructure valuations are reported by the fund manager and are based on the valuation of the underlying investments which includes inputs such as cost, operating results, discounted future cash flows and market-based comparable data. Since these valuation inputs are not highly observable, private equity and infrastructure investments have been categorized as Level 3 within pooled funds.

Cash equivalents consist of demand cash deposits held with banks and cash held by the investment managers. Cash equivalents are categorized as Level 1.

Short-term securities are valued at cost plus accrued interest, which approximates fair value due to their short-term nature. Short-term securities are categorized as Level 2.

Derivative instruments are used to hedge the Pension Plan's foreign currency exposure back to Canadian dollars. The most significant currencies being hedged against the Canadian dollar are the United States dollar, Euro, and Japanese Yen. The terms to maturity of the forward exchange contracts at December 31, 2017 are within three months. The fair value of the derivative instruments is determined using inputs other than quoted prices that are observable for these assets. The fair value is determined using standard interpolation methodology primarily based on the World Markets exchange rates. Derivative instruments are categorized as Level 2.

Corporate shares are valued based on quoted prices in active markets and are categorized as Level 1. Investments denominated in foreign currencies are translated into Canadian currency at year-end rates of exchange.

Bonds and debentures are presented at published closing trade quotations, and are categorized as Level 2.

19. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the years ended December 31, 2017 and 2016:

Year ended December 31, 2017 *(millions of dollars)*	PCB	Land Assessment and Remediation	Total
Environmental liabilities - beginning	143	61	204
Interest accretion	6	2	8
Expenditures	(16)	(8)	(24)
Revaluation adjustment	1	7	8
Environmental liabilities - ending	134	62	196
Less: current portion	(20)	(8)	(28)
	114	54	168

Year ended December 31, 2016 *(millions of dollars)*	PCB	Land Assessment and Remediation	Total
Environmental liabilities - beginning	148	59	207
Interest accretion	7	1	8
Expenditures	(11)	(9)	(20)
Revaluation adjustment	(1)	10	9
Environmental liabilities - ending	143	61	204
Less: current portion	(18)	(9)	(27)
	125	52	177

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The following tables show the reconciliation between the undiscounted basis of the environmental liabilities and the amount recognized on the Consolidated Balance Sheets after factoring in the discount rate:

December 31, 2017 *(millions of dollars)*	PCB	Land Assessment and Remediation	Total
Undiscounted environmental liabilities	142	64	206
Less: discounting environmental liabilities to present value	(8)	(2)	(10)
Discounted environmental liabilities	134	62	196

December 31, 2016 *(millions of dollars)*	PCB	Land Assessment and Remediation	Total
Undiscounted environmental liabilities	158	66	224
Less: discounting environmental liabilities to present value	(15)	(5)	(20)
Discounted environmental liabilities	143	61	204

At December 31, 2017, the estimated future environmental expenditures were as follows:

(millions of dollars)	
2018	28
2019	27
2020	32
2021	34
2022	31
Thereafter	54
	206

Hydro One records a liability for the estimated future expenditures for land assessment and remediation and for the phase-out and destruction of PCB-contaminated mineral oil removed from electrical equipment when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations, and advances in remediation technologies. In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation rate assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 2.0% to 6.3%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the present value of costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, with respect to the PCB environmental liability, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures.

PCBs

The Environment Canada regulations, enacted under the *Canadian Environmental Protection Act, 1999*, govern the management, storage and disposal of PCBs based on certain criteria, including type of equipment, in-use status, and PCB-contamination thresholds. Under current regulations, Hydro One's PCBs have to be disposed of by the end of 2025, with the exception of specifically exempted equipment. Contaminated equipment will generally be replaced, or will be decontaminated by removing PCB-contaminated insulating oil and retro filling with replacement oil that contains PCBs in concentrations of less than 2 ppm.

The Company's best estimate of the total estimated future expenditures to comply with current PCB regulations is $142 million (2016 – $158 million). These expenditures are expected to be incurred over the period from 2018 to 2025. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2017 to increase the PCB environmental liability by $1 million (2016 – reduce by $1 million).

Land Assessment and Remediation

The Company's best estimate of the total estimated future expenditures to complete its land assessment and remediation program is $64 million (2016 – $66 million). These expenditures are expected to be incurred over the period from 2018 to 2044. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2017 to increase the land assessment and remediation environmental liability by $7 million (2016 – $10 million).

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20. ASSET RETIREMENT OBLIGATIONS

Hydro One records a liability for the estimated future expenditures for the removal and disposal of asbestos-containing materials installed in some of its facilities. Asset retirement obligations, which represent legal obligations associated with the retirement of certain tangible long-lived assets, are computed as the present value of the projected expenditures for the future retirement of specific assets and are recognized in the period in which the liability is incurred, if a reasonable estimate can be made. If the asset remains in service at the recognition date, the present value of the liability is added to the carrying amount of the associated asset in the period the liability is incurred and this additional carrying amount is depreciated over the remaining life of the asset. If an asset retirement obligation is recorded in respect of an out-of-service asset, the asset retirement cost is charged to results of operations. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future cash flows associated with the asset retirement obligation, which can occur due to a number of factors including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired, changes in legislation or regulations, as well as for accretion of the liability due to the passage of time until the obligation is settled. Depreciation expense is adjusted prospectively for any increases or decreases to the carrying amount of the associated asset.

In determining the amounts to be recorded as asset retirement obligations, the Company estimates the current fair value for completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 3.0% to 5.0%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's asset retirement obligations represent management's best estimates of the cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. Asset retirement obligations are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively.

At December 31, 2017, Hydro One had recorded asset retirement obligations of $9 million (2016 – $9 million), primarily consisting of the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities. The amount of interest recorded is nominal.

21. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At December 31, 2017, the Company had 142,239 common shares issued and outstanding (2016 – 142,239).

In 2017, a return of stated capital in the amount of $535 million (2016 – $609 million) was paid.

The amount and timing of any dividends payable by Hydro One is at the discretion of the Hydro One Board of Directors and is established on the basis of Hydro One's results of operations, maintenance of its deemed regulatory capital structure, financial condition, cash requirements, the satisfaction of solvency tests imposed by corporate laws for the declaration and payment of dividends and other factors that the Board of Directors may consider relevant.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At December 31, 2017, two series of preferred shares are authorized for issuance: the Class A preferred shares and Class B preferred shares. At December 31, 2017, the Company had 485,870 Class B preferred shares and no Class A preferred shares issued and outstanding (2016 - no Class A or Class B preferred shares issued and outstanding).

<u>Class A Preferred Shares</u>

On November 2, 2015, a special resolution of Hydro One Limited (as sole shareholder of Hydro One) was made to amend the articles of Hydro One to delete the share ownership restrictions and to amend the Hydro One preferred share terms to provide for basic redeemable preferred shares. When issued, the Class A preferred shares will be redeemable at the option of the Company. The holders of the Class A preferred shares will be entitled to receive, if and when declared by the Hydro One Board of Directors, non-cumulative preferred share dividends at a rate per year to be determined by the Hydro One Board of Directors. The holders of the Class A preferred shares will not be entitled to receive notice of, or to attend or to vote at, any meeting of the shareholders of Hydro One. The holders of the Class A preferred shares will be entitled to receive, before any distributions to the holders of common shares and any other shares ranking junior to the Class A preferred shares, an amount equal to the amount paid for the Class A preferred shares together with all dividends declared and unpaid up to the date of liquidation, dissolution or winding up of Hydro One, or the date of redemption.

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Class B Preferred Shares

On November 10, 2017, a special resolution of Hydro One Limited was made to amend the articles of Hydro One to create an unlimited number of Class B preferred shares. The holders of the Class B preferred shares are entitled to receive quarterly floating-rate cumulative dividends, if and when declared by the Board of Directors, at a rate equal to the sum of the average 3-month Canadian dollar bankers' acceptance rate and 0.25% as reset quarterly. The holders of the Class B preferred shares will not be entitled to receive notice of, or to attend or to vote at, any meeting of the shareholders of Hydro One. The holders of the Class B preferred shares will be entitled to receive, before any distributions to the holders of the Class A preferred shares, the common shares and any other shares ranking junior to the Class B preferred shares, an amount equal to the amount paid for the Class B preferred shares together with all dividends unpaid up to the date of liquidation, dissolution or winding up of Hydro One, or the date of redemption.

The Class B preferred shares have a redemption feature that is outside the control of the Company because the holders can exercise their right to redeem the Class B preferred shares at any time without approval of the Company's Board of Directors. The Class B preferred shares are classified on the Consolidated Balance Sheet as temporary equity because this redemption feature is outside the control of the Company.

On November 20, 2017, Hydro One issued 485,870 Class B preferred shares to 2587264 Ontario Inc., a subsidiary of Hydro One Limited, for proceeds of $486 million.

22. DIVIDENDS

In 2017, common share dividends in the amount of $15 million (2016 – $2 million) were declared and paid.

23. EARNINGS PER COMMON SHARE

Basic and diluted earnings per common share (EPS) is calculated by dividing net income attributable to common shareholder of Hydro One by the weighted average number of common shares outstanding. The weighted average number of shares outstanding at December 31, 2017 was 142,239 (2016 – 142,239). There were no dilutive securities during 2017 or 2016.

24. STOCK-BASED COMPENSATION

The following compensation plans were established by Hydro One Limited, however they represent components of compensation costs of Hydro One in current and future periods.

Share Grant Plans

Hydro One Limited has two share grant plans (Share Grant Plans), one for the benefit of certain members of the Power Workers' Union (the PWU Share Grant Plan) and one for the benefit of certain members of The Society of Energy Professionals (the Society Share Grant Plan). Hydro One and Hydro One Limited entered into an intercompany agreement, such that Hydro One will pay Hydro One Limited for the compensation costs associated with these plans.

The PWU Share Grant Plan provides for the issuance of common shares of Hydro One Limited from treasury to certain eligible members of the PWU annually, commencing on April 1, 2017 and continuing until the earlier of April 1, 2028 or the date an eligible employee no longer meets the eligibility criteria of the PWU Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on April 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. The requisite service period for the PWU Share Grant Plan began on July 3, 2015, which is the date the share grant plan was ratified by the PWU. The number of common shares issued annually to each eligible employee will be equal to 2.7% of such eligible employee's salary as at April 1, 2015, divided by $20.50, being the price of the common shares of Hydro One Limited in the IPO. The aggregate number of Hydro One Limited common shares issuable under the PWU Share Grant Plan shall not exceed 3,981,763 common shares. In 2015, 3,952,212 Hydro One Limited common shares were granted under the PWU Share Grant Plan relevant to the total share based compensation recognized by Hydro One.

The Society Share Grant Plan provides for the issuance of common shares of Hydro One Limited from treasury to certain eligible members of The Society annually, commencing on April 1, 2018 and continuing until the earlier of April 1, 2029 or the date an eligible employee no longer meets the eligibility criteria of the Society Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on September 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. Therefore the requisite service period for the Society Share Grant Plan began on September 1, 2015. The number of common shares issued annually to each eligible employee will be equal to 2.0% of such eligible employee's salary as at September 1, 2015, divided by $20.50, being the price of the common shares of Hydro One Limited in the IPO. The aggregate number of Hydro One Limited common shares issuable under the Society Share Grant Plan shall not exceed 1,434,686 common shares. In 2015, 1,367,158 Hydro One Limited common shares were granted under the Society Share Grant Plan relevant to the total share based compensation recognized by Hydro One.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

The fair value of the Hydro One Limited 2015 share grants of $111 million was estimated based on the grant date Hydro One Limited share price of $20.50 and is recognized using the graded-vesting attribution method as the share grant plans have both a performance condition and a service condition. In 2017, 369,266 common shares of Hydro One Limited were granted under the Share Grant Plans (2016 - nil) to eligible employees of Hydro One. Total share based compensation recognized during 2017 was $17 million (2016 – $21 million) and was recorded as a regulatory asset.

A summary of share grant activity under the Share Grant Plans during years ended December 31, 2017 and 2016 is presented below:

Year ended December 31, 2017	Share Grants *(number of common shares)*	Weighted-Average Price
Share grants outstanding - beginning	5,239,678	$20.50
Vested and issued[1]	(369,266)	—
Forfeited	(132,629)	$20.50
Share grants outstanding - ending	4,737,783	$20.50

[1] On April 1, 2017, Hydro One LImited issued from treasury 369,266 common shares to eligible Hydro One employees in accordance with provisions of the PWU Share Grant Plan.

Year ended December 31, 2016	Share Grants *(number of common shares)*	Weighted-Average Price
Share grants outstanding – beginning	5,319,370	$20.50
Forfeited[1]	(79,692)	$20.50
Share grants outstanding – ending	5,239,678	$20.50

[1] Includes shares forfeited as well as shares transferred corresponding to transfer of employees from an affiliate company.

Directors' DSU Plan

Under the Directors' DSU Plan, directors can elect to receive credit for their annual cash retainer in a notional account of DSUs in lieu of cash. Hydro One Limited's Board of Directors may also determine from time to time that special circumstances exist that would reasonably justify the grant of DSUs to a director as compensation in addition to any regular retainer or fee to which the director is entitled. Each DSU represents a unit with an underlying value equivalent to the value of one common share of Hydro One Limited and is entitled to accrue Hydro One Limited common share dividend equivalents in the form of additional DSUs at the time dividends are paid, subsequent to declaration by Hydro One Limited's Board of Directors.

During the years ended December 31, 2017 and 2016, the Company granted awards under the Directors' DSU Plan, as follows:

Year ended December 31 *(number of DSUs)*	2017	2016
DSUs outstanding – beginning	99,083	20,525
DSUs granted	88,007	78,558
DSUs outstanding – ending	187,090	99,083

For the year ended December 31, 2017, an expense of $2 million (2016 – $2 million) was recognized in earnings with respect to the Directors' DSU Plan. At December 31, 2017, a liability of $4 million (2016 – $2 million), related to outstanding DSUs has been recorded at the closing price of Hydro One Limited's common shares of $22.40 and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

Management DSU Plan

Under the Management DSU Plan, eligible executive employees can elect to receive a specified proportion of their annual short-term incentive in a notional account of DSUs in lieu of cash. Each DSU represents a unit with an underlying value equivalent to the value of one common share of Hydro One Limited and is entitled to accrue common share dividend equivalents in the form of additional DSUs at the time dividends are paid, subsequent to declaration by Hydro One's Board of Directors.

During the years ended December 31, 2017 and 2016, the Company granted awards under the Management DSU Plan, as follows:

Year ended December 31 *(number of DSUs)*	2017	2016
DSUs outstanding - beginning	—	—
Granted	64,828	—
Paid	(1,068)	—
DSUs outstanding - ending	63,760	—

For the year ended December 31, 2017, an expense of $2 million (2016 - $nil) was recognized in earnings with respect to the Management DSU Plan. At December 31, 2017, a liability of $2 million (2016 – $nil) related to outstanding DSUs has been recorded at the closing price of Hydro One Limited common shares of $22.40 and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

Employee Share Ownership Plan

In 2015, Hydro One Limited established Employee Share Ownership Plans (ESOP) for certain eligible management and non-represented employees (Management ESOP) and for certain eligible Society-represented staff (Society ESOP). Under the Management ESOP, the eligible management and non-represented employees may contribute between 1% and 6% of their base salary towards purchasing common shares of Hydro One Limited. The Company matches 50% of their contributions, up to a maximum Company contribution of $25,000 per calendar year. Under the Society ESOP, the eligible Society-represented staff may contribute between 1% and 4% of their base salary towards purchasing common shares of Hydro One Limited. The Company matches 25% of their contributions, with no maximum Company contribution per calendar year. In 2017, Company contributions made under the ESOP were $2 million (2016 - $2 million).

LTIP

Effective August 31, 2015, the Board of Directors of Hydro One Limited adopted an LTIP. Under the LTIP, long-term incentives are granted to certain executive and management employees of Hydro One Limited and its subsidiaries, and all equity-based awards will be settled in newly issued shares of Hydro One Limited from treasury, consistent with the provisions of the plan. The aggregate number of shares issuable under the LTIP shall not exceed 11,900,000 shares of Hydro One Limited.

The LTIP provides flexibility to award a range of vehicles, including RSUs, PSUs, stock options, share appreciation rights, restricted shares, deferred share units and other share-based awards. The mix of vehicles is intended to vary by role to recognize the level of executive accountability for overall business performance.

During 2017 and 2016, Hydro One Limited granted awards under its LTIP as follows:

	PSUs		RSUs	
Year ended December 31 *(number of units)*	2017	2016	2017	2016
Units outstanding – beginning	228,890	—	252,440	—
Units granted	300,090	233,710	239,280	257,260
Units vested	(609)	—	(14,079)	—
Units forfeited	(103,251)	(4,820)	(89,501)	(4,820)
Units outstanding – ending	425,120	228,890	388,140	252,440

The grant date total fair value of the awards granted in 2017 was $13 million (2016 – $12 million). The compensation expense related to these awards recognized by the Company during 2017 was $6 million (2016 – $3 million).

25. NONCONTROLLING INTEREST

On December 16, 2014, transmission assets totalling $526 million were transferred from Hydro One Networks to B2M LP. This was financed by 60% debt ($316 million) and 40% equity ($210 million). On December 17, 2014, the Saugeen Ojibway Nation (SON) acquired a 34.2% equity interest in B2M LP for consideration of $72 million, representing the fair value of the equity interest acquired. The SON's initial investment in B2M LP consists of $50 million of Class A units and $22 million of Class B units.

The Class B units have a mandatory put option which requires that upon the occurrence of an enforcement event (i.e. an event of default such as a debt default by the SON or insolvency event), Hydro One purchase the Class B units of B2M LP for net book value on the redemption date. The noncontrolling interest relating to the Class B units is classified on the Consolidated Balance Sheet as temporary equity because the redemption feature is outside the control of the Company. The balance of the noncontrolling interest is classified within equity.

The following tables show the movements in noncontrolling interest during the years ended December 31, 2017 and 2016:

Year ended December 31, 2017 *(millions of dollars)*	Temporary Equity	Equity	Total
Noncontrolling interest – beginning	22	50	72
Distributions to noncontrolling interest	(2)	(4)	(6)
Net income attributable to noncontrolling interest	2	4	6
Noncontrolling interest – ending	22	50	72

Year ended December 31, 2016 *(millions of dollars)*	Temporary Equity	Equity	Total
Noncontrolling interest – beginning	23	52	75
Distributions to noncontrolling interest	(3)	(6)	(9)
Net income attributable to noncontrolling interest	2	4	6
Noncontrolling interest – ending	22	50	72

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

26. RELATED PARTY TRANSACTIONS

Hydro One is owned by Hydro One Limited. The Province is a shareholder of Hydro One Limited with approximately 47.4% ownership at December 31, 2017. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), the OEB, and Hydro One Telecom, are related parties to Hydro One because they are controlled or significantly influenced by the Province or by Hydro One Limited. Hydro One Brampton was a related party until February 28, 2017, when it was acquired from the Province by Alectra Inc., and subsequent to the acquisition by Alectra Inc., is no longer a related party to Hydro One.

Year ended December 31 *(millions of dollars)*

Related Party	Transaction	2017	2016
IESO	Power purchased	1,583	2,096
	Revenues for transmission services	1,521	1,549
	Amounts related to electricity rebates	357	—
	Distribution revenues related to rural rate protection	247	125
	Distribution revenues related to the supply of electricity to remote northern communities	32	32
	Funding received related to CDM programs	59	63
OPG	Power purchased	9	6
	Revenues related to provision of construction and equipment maintenance services	2	4
	Costs related to the purchase of services	1	1
OEFC	Power purchased from power contracts administered by the OEFC	2	1
OEB	OEB fees	8	11
Hydro One Brampton	Cost recovery from management, administrative and smart meter network services	—	3
Hydro One Limited	Return of stated capital	535	609
	Dividends paid	15	2
	Stock-based compensation costs	23	24
	Cost recovery for services provided	6	—
Hydro One Telecom	Services received – costs expensed	24	24
	Services received – costs capitalized	—	12
	Revenues for services provided	3	3
2587264 Ontario Inc.	Promissory note issued and repaid[1]	486	—
	Preferred shares issued[2]	486	—

[1] On October 17, 2017, Hydro One issued a promissory note to 2587264 Ontario Inc., a subsidiary of Hydro One Limited, totalling $486 million. On November 20, 2017, Hydro One repaid the $486 million promissory note to 2587264 Ontario Inc., as well as interest totalling $1 million.

[2] On November 20, 2017, Hydro One issued 485,870 Class B preferred shares to 2587264 Ontario Inc. for proceeds of $486 million. See Note 21 for details of the Class B preferred shares.

Sales to and purchases from related parties are based on the requirements of the OEB's Affiliate Relationships Code. Outstanding balances at period end are interest-free and settled in cash.

27. CONSOLIDATED STATEMENTS OF CASH FLOWS

The changes in non-cash balances related to operations consist of the following:

Year ended December 31 *(millions of dollars)*	2017	2016
Accounts receivable	191	(59)
Due from related parties	(215)	(40)
Materials and supplies	1	2
Prepaid expenses and other assets	2	(17)
Accounts payable	7	18
Accrued liabilities	(89)	52
Due to related parties	88	113
Accrued interest	(6)	9
Long-term accounts payable and other liabilities	(2)	6
Post-retirement and post-employment benefit liability	86	84
	63	168

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

Capital Expenditures

The following table reconciles investments in property, plant and equipment and the amounts presented in the Consolidated Statements of Cash Flows after accounting for capitalized depreciation and the net change in related accruals:

Year ended December 31 *(millions of dollars)*	2017	2016
Capital investments in property, plant and equipment	(1,482)	(1,624)
Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment	26	30
Cash outflow for capital expenditures – property, plant and equipment	(1,456)	(1,594)

The following table reconciles investments in intangible assets and the amounts presented in the Consolidated Statements of Cash Flows after accounting for the net change in related accruals:

Year ended December 31 *(millions of dollars)*	2017	2016
Capital investments in intangible assets	(74)	(67)
Net change in accruals included in capital investments in intangible assets	(6)	6
Cash outflow for capital expenditures – intangible assets	(80)	(61)

Capital Contributions

Hydro One enters into contracts governed by the OEB Transmission System Code when a transmission customer requests a new or upgraded transmission connection. The customer is required to make a capital contribution to Hydro One based on the shortfall between the present value of the costs of the connection facility and the present value of revenues. The present value of revenues is based on an estimate of load forecast for the period of the contract with Hydro One. Once the connection facility is commissioned, in accordance with the OEB Transmission System Code, Hydro One will periodically reassess the estimated of load forecast which will lead to a decrease, or an increase in the capital contributions from the customer. The increase or decrease in capital contributions is recorded directly to fixed assets in service. In 2017, capital contributions from these reassessments totalled $9 million (2016 – $21 million), which represents the difference between the revised load forecast of electricity transmitted compared to the load forecast in the original contract, subject to certain adjustments.

Supplementary Information

Year ended December 31 *(millions of dollars)*	2017	2016
Net interest paid	452	418
Income taxes paid	11	30

28. CONTINGENCIES

Legal Proceedings

Hydro One is involved in various lawsuits and claims in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Hydro One, Hydro One Networks, Hydro One Remote Communities, and Norfolk Power Distribution Inc. are defendants in a class action suit in which the representative plaintiff is seeking up to $125 million in damages related to allegations of improper billing practices. The plaintiff's motion for certification was dismissed by the court on November 28, 2017, but the plaintiff has appealed the court's decision, and it is likely that no decision will be rendered by the appeal court until the second half of 2018. At this time, an estimate of a possible loss related to this claim cannot be made.

Transfer of Assets

The transfer orders by which the Company acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on Reserves (as defined in the *Indian Act* (Canada)). Currently, the OEFC holds these assets. Under the terms of the transfer orders, the Company is required to manage these assets until it has obtained all consents necessary to complete the transfer of title of these assets to itself. The Company cannot predict the aggregate amount that it may have to pay, either on an annual or one-time basis, to obtain the required consents. In 2017, the Company paid approximately $2 million (2016 – $1 million) in respect of consents obtained. If the Company cannot obtain the required consents, the OEFC will continue to hold these assets for an indefinite period of time. If the Company cannot reach a satisfactory settlement, it may have to relocate these assets to other locations at a cost that could be substantial or, in a limited number of cases, to abandon a line and replace it with diesel-generation facilities. The costs relating to these assets could have a material adverse effect on the Company's results of operations if the Company is not able to recover them in future rate orders.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

29. COMMITMENTS

The following table presents a summary of Hydro One's commitments under leases, outsourcing and other agreements due in the next 5 years and thereafter.

December 31, 2017 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing agreements	139	95	2	2	2	7
Long-term software/meter agreement	17	17	16	2	1	3
Operating lease commitments	10	5	9	4	1	4

Outsourcing Agreements

Hydro One has agreements with Inergi LP (Inergi) for the provision of back office and IT outsourcing services, including settlements, source to pay services, pay operations services, information technology and finance and accounting services, expiring on December 31, 2019, and for the provision of customer service operations outsourcing services expiring on February 28, 2018. Hydro One is currently in the process of insourcing the customer service operations services and will not be renewing the existing agreement for these services with Inergi. Agreements have been reached with The Society and the PWU to facilitate the insourcing of these services effective March 1, 2018.

Brookfield Global Integrated Solutions (formerly Brookfield Johnson Controls Canada LP) (Brookfield) provides services to Hydro One, including facilities management and execution of certain capital projects as deemed required by the Company. The agreement with Brookfield for these services expires in December 2024.

Long-term Software/Meter Agreement

Trilliant Holdings Inc. and Trilliant Networks (Canada) Inc. (collectively Trilliant) provide services to Hydro One for the supply, maintenance and support services for smart meters and related hardware and software, including additional software licences, as well as certain professional services. The agreement with Trilliant for these services expires in December 2025, but Hydro One has the option to renew for an additional term of five years at its sole discretion.

Operating Leases

Hydro One is committed as lessee to irrevocable operating lease contracts for buildings used in administrative and service-related functions and storing telecommunications equipment. These leases have typical terms of between three and five years, but several leases have lesser or greater terms to address special circumstances and/or opportunities. Renewal options, which are generally prevalent in most leases, have similar terms of three to five years. All leases include a clause to enable upward revision of the rental charge on an annual basis or on renewal according to prevailing market conditions or pre-established rents. There are no restrictions placed upon Hydro One by entering into these leases. During the year ended December 31, 2017, the Company made lease payments totalling $10 million (2016 – $10 million).

Other Commitments

The following table presents a summary of Hydro One's other commercial commitments by year of expiry in the next 5 years and thereafter.

December 31, 2017 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Credit facilities	—	—	—	—	2,300	—
Letters of credit[1]	177	—	—	—	—	—
Guarantees[2]	325	—	—	—	—	—

[1] Letters of credit consist of a $154 million letter of credit related to retirement compensation arrangements, a $16 million letter of credit provided to the IESO for prudential support, $6 million in letters of credit to satisfy debt service reserve requirements, and $1 million in letters of credit for various operating purposes.
[2] Guarantees consist of prudential support provided to the IESO by Hydro One on behalf of its subsidiaries.

Prudential Support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees and/or letters of credit if these purchasers fail to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of any letters of credit plus the amount of the parental guarantees.

Retirement Compensation Arrangements

Bank letters of credit have been issued to provide security for Hydro One's liability under the terms of a trust fund established pursuant to the supplementary pension plan for eligible employees of Hydro One. The supplementary pension plan trustee is required to draw upon these letters of credit if Hydro One is in default of its obligations under the terms of this plan. Such obligations include the requirement to provide the trustee with an annual actuarial report as well as letters of credit sufficient to secure Hydro One's liability under the plan, to pay benefits payable under the plan and to pay the letter of credit fee. The maximum potential payment is the face value of the letters of credit.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

30. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Segment, which comprises the transmission of high voltage electricity across the province, interconnecting more than 70 local distribution companies and certain large directly connected industrial customers throughout the Ontario electricity grid;
- The Distribution Segment, which comprises the delivery of electricity to end customers and certain other municipal electricity distributors; and
- Other Segment, which includes certain corporate activities.

The designation of segments has been based on a combination of regulatory status and the nature of the services provided. Operating segments of the Company are determined based on information used by the chief operating decision maker in deciding how to allocate resources and evaluate the performance of each of the segments. The Company evaluates segment performance based on income before financing charges and income taxes from continuing operations (excluding certain allocated corporate governance costs).

Year ended December 31, 2017 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	1,581	4,366	—	5,947
Purchased power	—	2,875	—	2,875
Operation, maintenance and administration	391	599	24	1,014
Depreciation and amortization	420	390	—	810
Income (loss) before financing charges and income taxes	770	502	(24)	1,248
Capital investments	968	588	—	1,556

Year ended December 31, 2016 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	1,587	4,915	—	6,502
Purchased power	—	3,427	—	3,427
Operation, maintenance and administration	410	613	20	1,043
Depreciation and amortization	390	379	—	769
Income (loss) before financing charges and income taxes	787	496	(20)	1,263
Capital investments	988	703	—	1,691

Total Assets by Segment:

December 31 *(millions of dollars)*	2017	2016
Transmission	13,612	13,083
Distribution	9,279	9,393
Other	2,860	2,834
Total assets	25,751	25,310

Total Goodwill by Segment:

December 31 *(millions of dollars)*	2017	2016
Transmission *(Note 4)*	157	159
Distribution	168	168
Total goodwill	325	327

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

31. SUBSEQUENT EVENTS

Dividends and Return of Stated Capital

On February 12, 2018, preferred share dividends in the amount of $2 million and common share dividends in the amount of $5 million were declared. On the same date, a return of stated capital in the amount of $128 million was approved.

LIQUOR CONTROL BOARD OF ONTARIO

Responsibility for Financial Reporting

The preparation, presentation and integrity of the financial statements are the responsibility of management. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the estimates, judgments and assumptions necessary to prepare the financial statements in accordance with International Financial Reporting Standards. The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on management's best estimates and judgment.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, composed of three Members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General of Ontario to satisfy itself that each group has properly discharged its respective responsibility. Also, the Office of the Auditor General of Ontario meets with the Audit Committee without management present.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards. The Independent Auditor's Report outlines the scope of the Auditor's examination and opinion.

On behalf of management:

George Soleas
President & Chief Executive Officer

Kent Harris
Senior Vice President, Finance & Administration, and Chief Financial Officer
June 28, 2018

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Liquor Control Board of Ontario
and to the Minister of Finance

I have audited the accompanying financial statements of the Liquor Control Board of Ontario, which comprise the statement of financial position as at March 31, 2018, and the statement of income and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Liquor Control Board of Ontario as at March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Toronto, Ontario
June 28, 2018

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

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LIQUOR CONTROL BOARD OF ONTARIO
Statement of Income and Other Comprehensive Income

(thousands of Canadian dollars)

	Note	March 31 2018	March 31 2017
ASSETS			
Current Assets			
Cash and cash equivalents	5	421,406	324,586
Trade and other receivables	6	79,923	75,732
Inventories	7	463,792	477,104
Prepaid expenses and other assets	8	28,373	27,540
Total Current Assets		993,494	904,962
Property, plant and equipment and intangible assets	9	409,115	396,739
Total Assets		**1,402,609**	**1,301,701**
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	10	685,524	677,132
Provisions	12	23,765	25,705
Current portion of non-pension employee benefits	13	14,235	11,889
Total Current Liabilities		723,524	714,726
Non-pension employee benefits	13	120,281	108,036
Total Liabilities		**843,805**	**822,762**
Equity			
Retained earnings		567,205	480,681
Accumulated other comprehensive loss		(8,401)	(1,742)
Total Equity		558,804	478,939
Total Liabilities and Equity		**1,402,609**	**1,301,701**

See accompanying notes to the financial statements.

Approved By:

P Hoard

Vice Chair, Board of Directors

Craig Hooper

Board Member, Chair, Audit Committee

LIQUOR CONTROL BOARD OF ONTARIO
Statement of Income and Other Comprehensive Income

(thousands of Canadian dollars)

For the year ended	Note	March 31 2018	March 31 2017
Revenue	18	6,244,493	5,892,497
Cost of sales	7	(3,107,071)	(2,943,420)
Gross margin		3,137,422	2,949,077
Other income		53,381	65,425
Selling, general and administrative expenses	20	(983,817)	(944,977)
Income from operations		2,206,986	2,069,525
Gain on sale of Head Office	19	-	271,762
Finance income	22	3,495	2,349
Finance costs	13, 22	(3,957)	(3,939)
Net income		**2,206,524**	**2,339,697**
Other comprehensive loss:			
Actuarial losses on non-pension employee benefits	13	(6,659)	(452)
Total other comprehensive loss		(6,659)	(452)
Total comprehensive income		**2,199,865**	**2,339,245**

See accompanying notes to the financial statements.

LIQUOR CONTROL BOARD OF ONTARIO
Statement of Changes in Equity

(thousands of Canadian dollars)

	Note	Retained Earnings	Accumulated other comprehensive loss	Total Equity
Balance at April 1, 2017		480,681	(1,742)	478,939
Net income		2,206,524	-	2,206,524
Other comprehensive loss		-	(6,659)	(6,659)
Dividend paid to province		(2,120,000)	-	(2,120,000)
Balance at March 31, 2018		567,205	(8,401)	558,804
Balance at April 1, 2016		447,199	(1,290)	445,909
Net income		2,339,697	-	2,339,697
Other comprehensive loss		-	(452)	(452)
Dividend paid to province		(2,060,000)	-	(2,060,000)
Sale of Head Office transfer	19	(246,215)	-	(246,215)
Balance at March 31, 2017		480,681	(1,742)	478,939

LIQUOR CONTROL BOARD OF ONTARIO
Statement of Cash Flows

(thousands of Canadian dollars)

For the year ended	**March 31 2018**	**March 31 2017**
Operating activities:		
Net income	2,206,524	2,339,697
Depreciation, amortization and impairment	69,706	67,502
Loss/(gain) on sale and disposal of property, plant and equipment and intangible assets	220	(4,366)
Gain on sale of Head Office	-	(271,762)
Non-pension employee benefit expenses	21,033	17,590
Non-pension employee benefit payments	(13,101)	(18,714)
	77,858	(209,750)
Change in non-cash balances related to operations:		
Trade and other receivables	(4,191)	(14,851)
Inventories	13,312	(44,252)
Prepaid expenses and other assets	(833)	5,134
Trade and other payables	8,392	88,407
Provisions	(1,940)	6,773
	14,740	41,211
Net cash provided by operating activities	2,299,122	2,171,158
Investing activities:		
Purchase of property, plant and equipment, intangible assets and assets held for sale	(82,523)	(78,599)
Proceeds from sale of property, plant and equipment and intangible assets	221	6,370
Net monetary proceeds from sale of Head Office	-	258,747
Net cash (used in)/provided by investing activities	(82,302)	186,518
Financing activities:		
Dividend paid to the Province of Ontario	(2,120,000)	(2,060,000)
Sale of Head Office transfer	-	(246,215)
Net cash used in financing activities	(2,120,000)	(2,306,215)
Increase in cash	96,820	51,461
Cash and cash equivalents, beginning of year	324,586	273,125
Cash and cash equivalents, end of year	421,406	324,586

Supplemental cash flow information

Non-monetary proceeds from sale of Head Office included in Prepaid expenses and other assets	-	23,264

LIQUOR CONTROL BOARD OF ONTARIO
Notes to Financial Statements
For the years ended March 31, 2018 and 2017

1. General information and statement of compliance

1.1 General information

The Liquor Control Board of Ontario ("LCBO") is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. LCBO is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario ("Province").

As an Ontario Crown Corporation, LCBO is exempt from income taxes. LCBO transfers most of its earnings to the Province's Consolidated Revenue Fund in the form of a dividend.

LCBO's head office is located at 55 Lake Shore Blvd East, Toronto, Ontario, Canada, M5E 1A4.

1.2 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements are presented in Canadian dollars ("C$"), LCBO's functional currency.

The audited financial statements were approved by the Board of Directors and authorized for issue on June 28, 2018.

2. Adoption of new and amended standards and interpretations

2.1 Accounting standards and amendments adopted in the current year

The IASB has issued the following relevant standards and amendments that have been applied in preparing our March 31, 2018 financial statements as their effective dates fall in the current financial reporting period. The standards and amendments did not have any impact on LCBO's financial statements.

Standards and amendments	Description	LCBO Effective Date	Assessed impact
Disclosure initiative (Amendments to IAS 7 *Cash Flows*)	IAS 7 *Statement of Cash Flows* has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017.	April 1, 2017	No Impact until adoption of IFRS 16

LIQUOR CONTROL BOARD OF ONTARIO
Notes to Financial Statements
For the years ended March 31, 2018 and 2017

(thousands of Canadian dollars)

2.2 Accounting standards and amendments not yet effective

The following relevant standards and amendments issued by the IASB have not been applied in preparing our March 31, 2018 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
IFRS 9 *Financial Instruments*	Previous standards and interpretations: • IAS 39 *Financial Instruments*: Recognition and Measurement • IFRIC 9 *Reassessment of Embedded Derivatives* Finalized version issued in July 2014 incorporating the classification and measurement requirements and new hedge accounting model included in earlier versions. This version introduces a single forward-looking expected credit loss impairment model. IFRS 9 also resulted in consequential amendments to IFRS 7 *Financial Instruments: Disclosures* to include disclosures about an entity's risk management strategy and the effect of hedge accounting on the financial statements. The standard is effective for annual periods beginning on or after January 1, 2018.	April 1, 2018	No anticipated significant impact
Annual improvement - 2014-2016 cycle	The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle on 8 December 2016, amending the following standards: • *IFRS 1 First-time Adoption of International Financial Reporting Standards* deleted the short-term exemptions. • *IAS 28 Investments in Associates and Joint Ventures* has clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018.	April 1, 2018 April 1, 2018	No anticipated impact

LIQUOR CONTROL BOARD OF ONTARIO
Notes to Financial Statements
For the years ended March 31, 2018 and 2017

2.2 Accounting standards and amendments not yet effective (continued)

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
IFRS 15 *Revenue from Contracts with Customers*	Previous standards and interpretations: • IAS 11 *Construction Contracts* • IAS 18 *Revenue* • IFRIC 13 *Customer Loyalty Programmes* • IFRIC 15 *Agreements for the Construction of Real Estate* • IFRIC 18 *Transfer of Assets from Customers* • SIC-31 *Revenue – Barter Transactions Involving Advertising Services* IFRS 15 establishes a comprehensive framework for the recognition, measurement and disclosure of revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments).The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard is effective for annual periods beginning on or after January 1, 2018.	April 1, 2018	See note below for impact assessment
IFRS 16 *Leases*	Previous standards and interpretations: • IAS 17 *Leases* • IFRIC 4 *Determining Whether an Arrangement Contains a Lease* • SIC-15 *Operating Leases – Incentives* • SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The new standard is effective for annual periods beginning on for after January 1, 2019.	April 1, 2019	LCBO is assessing the potential impact

LIQUOR CONTROL BOARD OF ONTARIO
Notes to Financial Statements
For the years ended March 31, 2018 and 2017

(thousands of Canadian dollars)

2.2 Accounting standards and amendments not yet effective (continued)

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
IAS19 *Employee Benefits*	The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are: If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment is effective for annual periods beginning on or after January 1, 2019.	April 1, 2019	LCBO is assessing the potential impact
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. • The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. • If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The interpretation is effective for annual periods beginning on or after January 1, 2018.	April 1, 2019	LCBO is assessing the potential impact
Conceptual Framework for Financial Reporting 2018	The Framework's purpose is to assist the IASB in developing and revising IFRSs that are based on consistent concepts, to help preparers to develop consistent accounting policies for areas that are not covered by a standard or where there is choice of accounting policy, and to assist all parties to understand and interpret IFRS. The revised framework is effective January 1, 2020, with earlier application permitted.	April 1, 2020	No anticipated impact

2.2 Accounting standards and amendments not yet effective (continued)

IFRS 15 *Revenue from Contracts with Customers* Impact Assessment

The LCBO will adopt IFRS 15 for the fiscal year starting on April 1, 2018 and expects to adopt using the full retrospective approach with restatement of prior period results. Upon review of all significant revenue contracts with customers, the standard will impact the following material area:

<u>Direct Delivery Programs for Wineries and Distilleries</u>

Under the current IAS 18 *Revenue* standard, LCBO recognizes revenue from the direct delivery programs as the principal in the transaction, with revenue presented on a gross basis and cost of goods sold presented separately. Under IFRS 15, the standard requires an entity to determine whether it is the principal in the transaction or the agent on the basis of whether it controls the goods or services before they are transferred to the customer. To clarify how to assess control, the IASB had amended and extended the application guidance on this issue. Under the new IFRS 15 guidance, the LCBO will recognize revenue from the direct delivery programs as the agent in the transaction, with cost of goods sold netted against gross revenues. This will impact the presentation of revenue and cost of sales, with no impact to gross margin or net income.

3. Significant Accounting Policies

These financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value through profit or loss (“FVTPL”).

3.1 Cash & Cash Equivalents

Cash and cash equivalents comprise of cash, deposits held in trust and highly liquid investments with original maturity dates of 90 days or less from the date of acquisition.

LCBO’s investment policy restricts short-term investments to highly liquid, high-grade money market instruments such as federal/provincial treasury bills, bankers’ acceptances and term deposits. The resulting disclosures are presented in Note 5.

3.2 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment, if any. Almost all of LCBO’s receivables are due within 30 days.

The carrying amount of account receivables are reduced through the use of an allowance account where there is objective evidence that LCBO will not be able to collect all amounts due according to the original terms of the receivables. LCBO establishes an allowance taking into consideration customer credit worthiness, current economic trends and past experience. When receivables are deemed to be uncollectible after recording an allowance, they are written off against the allowance. The loss is recognized as a selling, general and administrative expense in the Statement of income and other comprehensive income. The resulting disclosures are presented in Note 6.

3.3 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined by the weighted average cost or landed cost method. Landed cost includes the supplier quote, rebate, excise, import duties and inbound freight. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of inventories comprises all cost of purchase net of vendor allowances and includes other direct costs, such as transportation and direct warehouse handling costs that are incurred to bring inventories to their present location and condition. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. The resulting disclosures are presented in Note 7.

3.4 Assets classified as held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, and it should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets classified as held for sale are measured at the lower of the carrying amount or fair value less costs to sell. An asset that is classified as held for sale is no longer depreciated. The resulting disclosures are presented in Note 19.

3.5 Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition, construction or development of the asset.

Depreciation is recognized in the Statement of income and other comprehensive income over the expected useful lives of each major component of property, plant and equipment, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives for property, plant and equipment are as follows:

Buildings	5 to 40 years
Leasehold Improvements	5 to 20 years
Machinery and Equipment	5 to 20 years
Computer Hardware	4 years

Land assets are carried at cost, less any recognized impairment losses and are not depreciated.

LIQUOR CONTROL BOARD OF ONTARIO
Notes to Financial Statements
For the years ended March 31, 2018 and 2017

(thousands of Canadian dollars)

3.5 Property, plant and equipment (continued)

Property, plant and equipment under construction and not available for use, are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

The cost of subsequently replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits related to the part will flow to LCBO, and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognized, if any. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of income and other comprehensive income as incurred. The resulting disclosures are presented in Note 9.

3.6 Intangible assets

i. **Acquired intangible assets**

Acquired intangible assets, such as software, are measured initially at cost and are amortized on a straight-line basis over their estimated useful lives.

The estimated useful lives for intangible assets are as follows:

Computer software	4 years

The resulting disclosures are presented in Note 9.

ii. **Internally generated intangible assets – research and development costs**

Expenditures related to research activities are recognized as an expense in the period in which they are incurred.

Development expenditures incurred are capitalized only if LCBO can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale as intended by management;
(b) its intention to complete the intangible asset and use or sell it;
(c) its ability to use or sell the intangible asset;
(d) how the intangible asset will generate probable future economic benefits;
(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Software under development and not available for use, are carried at cost, less any recognized impairment loss. When completed and ready for intended use these assets are amortized on the same basis as other acquired intangible assets. The resulting disclosures are presented in Note 9.

3.7 Impairment of property, plant and equipment and intangible assets

Annually LCBO reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, LCBO estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. For property, plant and equipment and intangible assets, the CGU is deemed to be each retail store. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Any impairment charge is recognized in the Statement of income and other comprehensive income in the year in which it occurs. The resulting disclosures are presented in Note 9.

3.8 Trade and other payables

Trade and other payables are classified as other financial liabilities and are generally short term in nature and due within one year of the Statement of financial position date. Trade payables are non-interest-bearing and are initially measured at fair value and subsequently remeasured at amortized cost. The resulting disclosures are presented in Note 10.

3.9 Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. The resulting disclosures are presented in Note 12.

3.10 Financial instruments

Financial assets and financial liabilities are recognized when LCBO becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Their measurement in subsequent periods and the recognition of changes in fair value depend on the category in which they are classified.

The LCBO has classified its financial instruments as follows:

Financial Asset / Financial Liability	Category	Measurement
Cash and cash equivalents	Loans and receivables or available for sale ("AFS")	Loans and receivables are measured at amortized cost. AFS is measured at fair value through other comprehensive income.
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Provisions	Other financial liabilities	Amortized cost
Derivatives and foreign exchange spot contracts	Fair value through profit or loss ("FVTPL")	Fair value through profit or loss ("FVTPL")

LIQUOR CONTROL BOARD OF ONTARIO
Notes to Financial Statements
For the years ended March 31, 2018 and 2017

(thousands of Canadian dollars)

3.10 Financial instruments (continued)

Financial instruments measured at fair value must be classified according to a three-level hierarchy based on the type of inputs used to make the measurements. This hierarchy is as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than the Level 1 quoted prices that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market inputs (unobservable inputs).

At the end of each reporting period, the LCBO determines whether there is any indication that a financial asset may be impaired. It does so for all financial assets except for those recognized at fair value through profit or loss. A financial asset or group of financial assets is impaired when there is objective evidence of impairment. In instances of impairment, the recognized impairment loss is the difference between the carrying amount of the asset and the present value of estimated future cash flows.

LCBO's financial assets and liabilities are generally classified and measured as follows:

i. **Financial assets**

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"), 'available-for-sale' ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or designated as such upon initial recognition. Financial assets are classified as held for trading if acquired principally for the purpose of selling in the near future or it has been part of an identified portfolio of financial instruments that LCBO manages together and has a recent actual pattern of short-term profit-making. Derivatives are also categorized as held for trading.

Financial assets classified as FVTPL are measured at fair value, with changes in fair value recorded in the Statement of income and other comprehensive income in the period in which they arise.

Available for sale ("AFS")

Financial instruments classified as AFS financial assets are measured at fair value with changes in fair value recognized in other comprehensive income ("OCI") until realized through disposal or impairment.

LIQUOR CONTROL BOARD OF ONTARIO
Notes to Financial Statements
For the years ended March 31, 2018 and 2017

(thousands of Canadian dollars)

3.10 Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

ii. **Financial liabilities**

Financial liabilities are classified as 'other financial liabilities', which are subsequently measured at amortized cost using the effective interest method.

iii. **Derivatives**

Derivative financial instruments are classified as FVTPL. Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at fair value, with changes recognized in the Statement of income and other comprehensive income. The resulting disclosures are presented in Note 16.

3.11 Revenue recognition

Revenue consists of the fair value of consideration received or receivable for the sale of goods in the ordinary course of LCBO's activities less any sales taxes. Sales taxes on the sale of goods are recorded as a liability in the period the sales taxes are deemed to be owed and are excluded from revenues. Revenue is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer and the amount of revenue can be measured reliably. For goods delivered to customers, revenue is recognized at the time the customer receives the product or upon estimated receipt by the customer. Revenue is recorded net of returns, trade discounts, volume rebates, applicable taxes and container deposits, in the Statement of income and other comprehensive income.

i. **Gift Cards**

Revenue generated from gift cards is recognized when gift cards are redeemed. LCBO also recognizes revenue from unredeemed gift cards if the likelihood of gift card redemption by the customer is considered to be remote.

ii. **Air Miles®**[1]

Income from the Air Miles® "program" is recognized in the period in which it is earned, in accordance with the terms of the contract. The program is split into two distinct components:

(1) Base – LCBO pays LoyaltyOne a fee for each Base Air Miles®[1] issued to customers. Base Air Miles® are treated as a sales incentive to customers, therefore the associated costs of the Base are accounted for as a reduction to revenues in the Statement of income and other comprehensive income.

(2) Bonus – LCBO charges vendors a fee whose products are participating in the Bonus Air Miles® program. The associated income net of costs of the Bonus is accounted for as a reduction to cost of sales in the Statement of income and other comprehensive income.

[1] AIR MILES® is a trademark of AIR MILES International Trading B.V. Used under license by LoyaltyOne

LIQUOR CONTROL BOARD OF ONTARIO
Notes to Financial Statements
For the years ended March 31, 2018 and 2017

(thousands of Canadian dollars)

3.12 Other income

i. **Services rendered**

Income from services rendered is recognized when the services are provided and the income can be measured reliably. Such services consist of border point levies and fees generated from special occasion permits such as those required by an individual or organization, who plan to serve alcohol at an event or location other than a private place. Effective April 1, 2018, special occasion permits are issued exclusively online via the Alcohol and Gaming Commission of Ontario ("AGCO") website.

ii. **Unredeemed ODRP container deposits**

LCBO recognizes income from estimated unredeemed ODRP container deposits as not all customers return the container for their deposit. LCBO determines its ODRP container redemption rate based on historical redemption data and estimates the unredeemed ODRP container deposit income. The resulting income is recognized based on historical redemption patterns, commencing when the container deposits are collected. The resulting disclosures are presented in Note 24.

iii. **Domestic Airline Revenue**

LCBO has a process to facilitate the sale of alcohol from Ontario Suppliers to Airlines, who in turn sell the alcohol on their flights. LCBO charges airlines a mark-up on products removed from the Customs Bonded Warehouse/Excise Warehouse for in-flight sales on flights departing from Ontario with a Canadian destination.

iv. **Grocer auction proceeds**

Since fiscal 2016, the LCBO has conducted several competitive bidding processes for grocery store licenses for the sale of beer, cider and wine in grocery stores. Proceeds from the competitive bidding processes are recognized in other income. Refer to Note 26 for more details.

3.13 Vendor allowances

LCBO receives allowances from certain suppliers whose product it purchases for resale. The allowances are received for a variety of promotional activities, including allowances received for in store promotion of the supplier's product, advertising the launch of a new product and labeling and shelf space provided on limited time product offers. LCBO recognizes consideration received from vendors as a reduction in the price of the vendors' products and reflects it as a reduction to cost of sales when recognized in the Statement of income and other comprehensive income. Certain exceptions apply where the cash consideration received is a direct reimbursement of specific, incremental and identifiable costs incurred by LCBO for assets or services delivered to the vendor or reimbursement of selling costs incurred to promote the vendor's product. In these particular instances, the consideration is reflected as a reduction in selling, general and administrative expenses.

3.14 Employee benefits

i. Short-term employee benefits

Short-term employee benefit obligations are expensed as the related service is provided. LCBO recognizes a liability and an expense for short-term benefits such as performance pay, unused vacation entitlements and other employee benefits if LCBO has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reasonably. The resulting disclosures are presented in Note 21.

ii. Pension Benefit Costs

LCBO provides defined pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund). The Province, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Fund, determines LCBO's annual contribution to the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of LCBO.

LCBO's contributions to both plans are accounted for on a defined contribution basis with LCBO's contribution charged to the Statement of income and other comprehensive income in the period the contributions become payable. The resulting disclosures are presented in Note 13.

iii. Non-pension employee benefits

Employee benefits other than those provided by the Province include accrued contractual severance payments ("CSP"), executive compensation time banking ("ECTB"), unfunded workers compensation obligation ("WCB") and benefits extended to employees on long-term income protection ("LTIP"). These plans provide benefits to employees when they are no longer providing active service. Other non-pension employee benefit obligations of the LCBO include accumulating non-vesting sick leave ("NVSL") and Service Awards. LCBO accrues these employee benefits over the periods in which the employees earn the benefits or upon absence. The cost of other post-retirement, non-pension employee benefits is paid by the Province and is not included in the Statement of income and other comprehensive income.

The liability of the CSP, ECTB, LTIP, NVSL and Service Awards was actuarially determined by using the Projected Unit Credit Method and management's best estimate. The WCB liability was actuarially determined by calculating the present value of the projected future payments. The annual benefit cost is the sum of the service cost and one year's interest cost plus remeasurements of the defined benefit obligation.

LIQUOR CONTROL BOARD OF ONTARIO
Notes to Financial Statements

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(thousands of Canadian dollars)

3.14 Employee benefits (continued)

LCBO recognizes all actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the CSP and ECTB benefits immediately in other comprehensive income, and reports them in accumulated other comprehensive income in the Statement of financial position, as these benefits are accrued over an employee's years of service. Any actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the LTIP, WCB, NVSL and Service Awards benefits are recognized in the Statement of income and other comprehensive income in the period in which they arise, as these benefits are defined as Other Long-Term Employee Benefits which do not have remeasurements that can be recognized in Other comprehensive income. The resulting disclosures are presented in Note 13.

3.15 Finance income

Finance income comprises of interest income on funds invested. Interest income is recognized as it accrues in the Statement of income and other comprehensive income, using the effective interest method. The resulting disclosures are presented in Note 22.

3.16 Finance costs

Finance costs consist of interest expense on the non-pension employee benefits obligation and financing charges on capital leases. The resulting disclosures are presented in Notes 13 and 22.

3.17 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

All other leases are classified as operating leases. Operating lease payments, including scheduled escalations, are recognized as an expense on a straight-line basis over the term of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability and amortized over the lease term. The aggregate benefit of incentives is recognized as a reduction of selling, general and administrative expenses on a straight-line basis. Almost all of LCBO's leases are classified as operating leases, with very few that are classified as finance leases. The resulting disclosures are presented in Note 11.

3.18 Foreign currencies

Transactions in currencies other than LCBO's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. Items denominated in foreign currencies, comprised of US, Euro and AUD bank accounts and liabilities are translated at the prevailing rates at the end of each reporting period. Exchange gains and losses are recognized immediately in the Statement of income and other comprehensive income.

4. Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the carrying amount of assets and liabilities, and disclosures of contingent assets and liabilities as at the date of the financial statements, and the carrying amount of revenues and expenses for the reporting period. These estimates are changed periodically, and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

The judgments and key sources of estimation uncertainty that have a significant effect on the amounts recognized in the financial statements are discussed below.

i. **Non-pension employee benefits**

The present value of the non-pension employee benefits obligation depends on a number of factors that are determined using an actuarial estimate based on numerous assumptions, including the discount rate, wage escalation, inflation rates, mortality rate and employee turnover. Any changes in these assumptions will impact the carrying amount of non-pension employee benefits obligations.

LCBO determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, LCBO uses the interest rates of high-quality corporate bonds that are denominated in the Canadian dollars in which the benefits will be paid. Other key assumptions for employee benefit obligations are based in part on current market conditions. Additional disclosures are presented in Note 13.

ii. **Impairment of property, plant and equipment and intangible assets**

LCBO has determined each store as a separate cash-generating unit (“CGU”). When there are indicators for impairment, LCBO performs an impairment test.

Intangible assets and property, plant and equipment are subject to impairment reviews based on whether current circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount for CGUs are based on a calculation of expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance. Additional disclosures are presented in Note 9.

iii. **Inventories**

LCBO makes estimates on the warehouse handling costs that directly relate to bringing inventories to their selling location and condition. Accordingly, LCBO includes the direct warehouse handling costs within inventories and they are expensed to cost of sales in the period the inventories are sold. Additional disclosures are presented in Note 7.

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4. Use of estimates and judgments (continued)

iv. **Leases**

LCBO leases a significant number of retail store locations as part of its operations as well as other assets. In determining the classification of a lease as either a finance or an operating lease, judgment is required in assessing whether substantially all of the risks and rewards incidental to ownership are transferred. LCBO analyzes each lease independently, considering various factors such as whether there is a bargain purchase and/or renewal option included in the lease, the economic life of the asset when compared to the term of the lease, and the minimum lease payments when compared to the fair value of the leased asset.

In respect of finance leases, judgment is required in determining the appropriate discount rate implicit in the lease to discount minimum lease payments. For leases where it is not practical to determine the implicit discount rate, LCBO estimates an appropriate discount rate based on the Ontario government borrowing rate.

v. **Provisions**

Provisions have been made for certain employee benefits, sales returns and store closing costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Additional disclosures are presented in Note 12.

vi. **ODRP unredeemed container deposit income**

LCBO has determined that not all deposits paid by customers for the ODRP containers will be redeemed. Estimates have been made for the redemption rate on ODRP containers based on past history. The estimated unredeemed ODRP container deposits are treated as other income in the period the likelihood of redemption is considered to be remote. Additional disclosures are presented in Note 24.

vii. **Unredeemed Gift cards**

LCBO has determined that not all gift cards purchased will be redeemed in full by customers. Estimates have been made for the redemption rate on gift cards based on past history and industry trends. For the year ended March 31, 2018, LCBO estimated the unredeemed percentage to be 2 per cent based on historical data and redemption patterns.

(thousands of Canadian dollars)

5. Cash and Cash Equivalents

Cash and cash equivalents include both cash on hand and in transit and short term investments (such as term deposits, treasury bills and bankers' acceptances), as follows:

	March 31, 2018	March 31, 2017
Cash on hand and in transit	172,305	113,160
Short term investments	249,101	211,426
	421,406	324,586

6. Trade and Other Receivables

	March 31, 2018	March 31, 2017
Trade and other receivables	80,365	76,501
Allowance for doubtful accounts	(442)	(769)
	79,923	75,732

Trade and other receivables arise primarily from sales billed to independent businesses, agents and other debtors.

The carrying amount of trade and other receivables is reduced through the use of an allowance for doubtful accounts at levels LCBO considered adequate to absorb credit losses. Subsequent recoveries of receivables previously provisioned are credited to the Statement of income and other comprehensive income.

7. Inventories

The cost of inventories sold and recognized as cost of sales during the year ended March 31, 2018 was $3,107 million (2017 - $2,943 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2018 and 2017.

8. Prepaid Expenses and Other Assets

Included in Prepaid expenses and other assets is the non-monetary incentive received from the sale of LCBO Head Office Lands in June 2016. The total non-monetary incentive was approximately $23.3 million for the leaseback of a portion of the Head Office Lands in the interim. The non-monetary incentive for the leaseback is amortized over the interim occupancy period, until the new office building and retail space is ready for occupancy by LCBO expected in late 2021. The unamortized balance of the non-monetary incentive as of March 31, 2018 is $15.1 million (2017 – $19.8 million). Refer to Note 19 for further details regarding the sale.

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9. Property, Plant & Equipment and Intangible Assets

Net book value of property, plant & equipment and intangible assets	March 31, 2018	March 31, 2017
Land	9,963	9,963
Buildings	104,856	102,511
Machinery and equipment	42,716	43,106
Leasehold improvements	176,822	175,958
Computer equipment	12,827	15,594
Computer software	32,121	26,080
Software/Construction in progress	29,810	23,527
	409,115	396,739

The following table presents the changes in the cost and accumulated depreciation and impairment on the LCBO's property, plant and equipment and intangible assets:

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2018

	Land	Buildings	Machinery and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2017	9,963	373,685	153,433	525,289	56,688	109,957	23,527	1,252,542
Additions	-	12,382	9,275	29,005	5,758	19,820	6,283	82,523
Disposals/Retirements	-	(127)	(11,264)	(14,770)	(6,189)	(786)	-	(33,136)
Impairment	-	-	-	-	-	-	-	-
Balance at March 31, 2018	9,963	385,940	151,444	539,524	56,257	128,991	29,810	1,301,929
Accumulated depreciation and impairment								
Balance at April 1, 2017	-	271,174	110,327	349,331	41,094	83,877	-	855,803
Depreciation for the year	-	10,010	9,416	28,131	8,378	13,771	-	69,706
Impairment losses	-	-	-	-	-	-	-	-
Disposals/Retirements	-	(100)	(11,015)	(14,760)	(6,042)	(778)	-	(32,695)
Balance at March 31, 2018	-	281,084	108,728	362,702	43,430	96,870	-	892,814
Net book value at March 31, 2018	9,963	104,856	42,716	176,822	12,827	32,121	29,810	409,115

(thousands of Canadian dollars)

9. Property, Plant & Equipment and Intangible Assets (continued)

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2017

	Land	Buildings	Machinery and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2016	10,381	365,103	148,127	494,647	57,090	94,419	28,995	1,198,762
Additions	-	12,812	12,023	34,756	5,756	18,646	(5,394)	78,599
Disposals/Retirements	(418)	(4,230)	(6,717)	(4,114)	(6,158)	(3,108)	-	(24,745)
Impairment	-	-	-	-	-	-	(74)	(74)
Balance at March 31, 2017	9,963	373,685	153,433	525,289	56,688	109,957	23,527	1,252,542
Accumulated depreciation and impairment								
Balance at April 1, 2016	-	264,495	107,810	324,777	38,905	75,129	-	811,116
Depreciation for the year	-	9,707	9,082	28,520	8,263	11,856	-	67,428
Impairment losses	-	-	-	-	-	-	-	-
Disposals/Retirements	-	(3,028)	(6,565)	(3,966)	(6,074)	(3,108)	-	(22,741)
Balance at March 31, 2017	-	271,174	110,327	349,331	41,094	83,877	-	855,803
Net book value at March 31, 2017	9,963	102,511	43,106	175,958	15,594	26,080	23,527	396,739

10. Trade and Other Payables

	March 31, 2018	March 31, 2017
Trade payables	356,813	364,053
Accruals and other payables	328,711	313,079
	685,524	677,132

Trade payables consist of amounts outstanding for purchases of alcohol products, freight and federal taxes. Accruals and other payables include amounts relating to harmonized sales tax, unredeemed gift cards, ODRP container deposits collected and other miscellaneous accruals and purchases.

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11. Operating Lease Arrangement

LCBO enters into operating leases in the ordinary course of business, primarily for retail stores. The leases have varying terms, escalation clauses, renewal rights and do not contain any contingent rental payments.

Minimum lease payments recognized as an expense in 2018 were $89.1 million (2017 – $86.2 million). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	March 31, 2018
Fiscal 2019	89,553
Fiscal 2020 to 2023	315,357
Beyond fiscal 2023	558,656
	963,566

12. Provisions

The following table represents the changes to LCBO's provisions:

Provisions continuity for the year ended March 31, 2018

	Short term employee benefits	Other	Total
Balance at April 1, 2017	18,821	6,884	25,705
Charges recognized during the year	20,045	3,720	23,765
Utilization of provision	(18,821)	(6,884)	(25,705)
Balance at March 31, 2018	20,045	3,720	23,765

Provisions continuity for the year ended March 31, 2017

	Short term employee benefits	Other	Total
Balance at April 1, 2016	18,364	568	18,932
Charges recognized during the year	18,821	6,884	25,705
Utilization of provision	(18,364)	(568)	(18,932)
Balance at March 31, 2017	18,821	6,884	25,705

Disclosed as:	March 31, 2018	March 31, 2017
Current	23,765	25,705
Non-current	-	-
	23,765	25,705

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12. Provisions (continued)

The employee benefits provision includes vacation entitlements earned by employees and performance bonus payments expected to be paid in the following year.

Other provisions include store closure provisions, which arise when LCBO agrees to restore a leased property to a specified condition at the completion of the lease period. These lease retirement provisions relate primarily to leases which expire over the next year. Other provisions also include a sales returns allowance for future returns on goods sold in the current period. The estimate has been made on the basis of historical sales returns trends. Included in last year's provision is an amount to compensate certain retail store Customer Service Representatives ("CSRs") for wage increases that may have been given to them as a result of their placement on the common wage grid for retail store CSRs, retroactive to November 1, 2016. The amount has been paid out in fiscal 2018. Refer to Note 14 for further details.

13. Employee Benefits

a. Pension plan

For the year ended March 31, 2018, the expense was $31.7 million (2017 – $29.1 million) and is included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

b. Non-pension employee benefits

The non-pension employee benefits obligation ("benefit obligation") include accruals for contractual severance payments ("CSP"), executive compensation time banking ("ECTB"), benefits extended to employees on long-term income protection ("LTIP"), unfunded workers compensation obligation ("WCB"), non-vesting sick leave plan ("NVSL") and service awards.

LCBO measures its benefit obligation for accounting purposes as at March 31st of each year.

As of March 31, 2018, the weighted average duration of the plans obligations are 7.3 years (2017 – 7.1 years).

i. Statement of financial position

The non-pension employee benefits recognized in the Statement of financial position is as follows:

	March 31, 2018	March 31, 2017
Current	14,235	11,889
Non-current	120,281	108,036
Total non-pension employee benefit obligation	134,516	119,925

The current portion represents LCBO's estimated contribution to non-pension employee benefits for fiscal 2019.

(thousands of Canadian dollars)

13. Employee Benefits (continued)

ii. Statement of income and other comprehensive income

The non-pension employee benefit costs recognized in the Statement of income and other comprehensive income is as follows:

	March 31, 2018	March 31, 2017
Current service cost	11,837	10,895
Actuarial losses on non-vesting benefits	5,278	2,822
Total costs included in expenses	17,115	13,717
Interest costs	3,918	3,873
Total costs included in finance costs	3,918	3,873
Total non-pension employee benefit expenses	21,033	17,590

iii. Accumulated other comprehensive income

The non-pension employee benefits recognized in accumulated other comprehensive income are as follows:

	March 31, 2018	March 31, 2017
Opening cumulative actuarial losses recognized	(1,742)	(1,290)
Net actuarial losses recognized	(6,659)	(452)
Closing cumulative actuarial losses recognized	(8,401)	(1,742)

iv. Movement in the obligation

The movements in the non-pension employee benefit obligation are as follows:

	March 31, 2018	March 31, 2017
Opening benefit obligation	119,925	120,597
Current service cost	11,837	10,895
Interest on obligation	3,918	3,873
Actuarial (gains) losses from changes in demographic assumptions	(253)	2,103
Actuarial losses (gains) from changes in financial assumptions	6,426	(838)
Actuarial losses from other	5,764	2,009
Benefits paid	(13,101)	(18,714)
Closing benefit obligation	134,516	119,925

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13. Employee Benefits (continued)

v. Significant assumptions

The significant assumptions used are as follows:

	CSP, ECTB & NVSL		Service Awards		WCB		LTIP	
	2018	2017	2018	2017	2018	2017	2018	2017
Discount rate to determine the benefit obligation	3.30%	3.20%	3.30%	3.20%	3.30%	3.20%	3.30%	3.20%
Discount rate to determine the benefit cost	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%
Salary rate increase • Bargaining Unit	FY 2018: 2.010% plus OPT Promotional Scale FY 2019: 2.010% plus OPT Promotional Scale FY 2020: 2.010% plus OPT Promotional Scale FY 2021+: 1.400% plus OPT Promotional Scale	2.0% inflation for FY 2017 and 1.4% thereafter for COLA, plus OPT Promotional Scale	2.0% per annum	2.0% per annum	n/a	n/a	n/a	n/a
• Management and Executive	FY2018: 8.540% + 2% merit FY2019: 2.010% + 2% merit FY2020: 2.010% + 2% merit FY2021+: 1.400% + 2% merit	FY2017: 1.4% COLA + 2% merit FY2018+: 0% COLA + 2% merit	2.0% per annum	2.0% per annum	n/a	n/a	n/a	n/a
Benefit index	Same as above	1.4% Inflation for CSP	2.0% per annum	2.0% per annum	2.0% per annum	2.5% for fully indexed benefits and 0.5% for partially indexed benefits	1.4% Inflation	1.4% Inflation
Health cost rate increase	n/a	n/a	n/a	n/a	7.5% per annum in 2018 reducing to 4.5% per annum in and after 2027	8.0% per annum in 2017 reducing to 4.5% per annum in and after 2027	7.5% per annum in 2018 reducing to 4.5% per annum in and after 2027	8.0% per annum in 2017 reducing to 4.5% per annum in and after 2027

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13. Employee Benefits (continued)

vi. Sensitivity analysis

The sensitivity of the non-pension employee benefit obligation to changes in assumptions is set out below.

Assumption	Impact on total non-pension employee benefit obligation	
	0.5% increase in assumption	0.5% decrease in assumption
Discount rate	(4,316)	4,613
Health care trend rate	905	(880)
Salary Scale	3,492	(3,298)
Benefit Indexation	1,289	(1,194)

Excluding the assumption that is being tested, the sensitivity analysis was conducted using the same membership data, assumptions, and methods used to determine the fiscal 2018 year-end disclosures. For the sensitivity analysis, each main assumption was increased and decreased by 0.5 per cent from the assumption used to determine the defined benefit obligation at March 31, 2018, to determine the sensitivity impact on the March 31, 2018 defined benefit obligation.

14. Contingent Liabilities

LCBO is involved in various legal actions arising out of the ordinary course and conduct of business. In view of the inherent difficulty of predicting the outcome on such matters, LCBO cannot state what the eventual outcome on such matters will be. However, based upon legal assessment and information presently available, LCBO does not believe that liabilities, if any, arising from pending litigation will have a material effect on the financial statements, with the exception of the following items.

In January 2015, LCBO was served with a proposed class proceeding seeking damages in the amount of $1.4 billion against LCBO, Brewers Retail Inc. (“BRI”) and BRI’s 3 corporate owners. The claim was commenced by an individual and a corporation who intend to represent a class composed of those individuals and businesses who purchased beer in Ontario since June 1, 2000 under the Framework for Improved Cooperation & Planning between Brewers Retail Inc. and the Government of Ontario (through the LCBO), dated June 1, 2000. The statement of claim alleged conspiracies regarding beer market allocation, pricing and licensee fees. LCBO filed a statement of defence and a Notice of Motion for summary judgment to dismiss the action against LCBO, which was heard in February 2018. The decision of the Commercial court granted summary judgment, dismissing the Plaintiffs’ class action lawsuit and awarded costs to the Defendants, including the LCBO. The Plaintiffs have filed a strategic appeal, while costs are being negotiated.

14. Contingent Liabilities (continued)

In May 2013, during collective bargaining, OPSEU filed an Application with the Human Rights Tribunal against LCBO and Ministry of Finance alleging systemic gender discrimination. Amongst other things, the Application alleged that by not compensating Casual and Permanent Part-time CSRs at the same rates as Permanent Full-time CSRs, LCBO was discriminating on the basis of sex, which was alleged to impose significant disadvantages on workers in the predominantly female job classification of Casual and Permanent Part-time CSR. However, the LCBO's Permanent Full-time CSR job classification is also predominantly female dominated. The LCBO vigorously defended the Human Rights Application and the hearing was scheduled to commence in October 2016. Just prior to the commencement of the hearing, the LCBO and OPSEU agreed to settle the Application in favour of a negotiation and arbitration process to address, amongst other things, a single wage grid for retail store CSRs (Casual, Permanent Part-time and Permanent Full-time) and the Sunday premium set out in the Collective Agreement. Negotiations were unsuccessful so the matter proceeded to arbitration. In two (2) arbitration awards, Arbitrator Kaplan, amongst other things, awarded a single wage grid and ended the Sunday premium. The arbitration award was processed and required amounts as determined by management staff were paid to applicable bargaining unit staff in this fiscal year.

The Application also addressed certain matters related to the revised Pay Equity Plan required for OPSEU Employees, that LCBO and OPSEU were in the process of updating prior to completing the last round of bargaining in 2017. The Pay Equity Plan for OPSEU Employees continues to require updating to bring it into compliance with the Act. At this point in time, it is not possible to reasonably estimate the value of the liability, if any, that may arise from the updated Pay Equity Plan for OPSEU Employees.

15. Financial Risk Management

The LCBO's Treasury policies regarding financial risk management are clearly defined and consistently applied. They are a fundamental part of the long-term strategy covering areas such as credit risk, liquidity risk and market risk (foreign exchange risk and interest rate risk). LCBO's financial risk management approach is to minimize the potential adverse effects from these risks on its financial performance. Financial risk management is carried out by LCBO, under the direction of the Board of Directors through its Governance Committee, in accordance with its Treasury Risk Management Policy. This Policy sets out the prudential framework for the identification, measurement, management and control of financial risks. Treasury operates as a centralized service and does not engage in speculative activities. Strict limits on the size and type of transaction permitted as well as authorized counterparties are set by the Board of Directors and are subject to rigorous internal controls.

15. Financial Risk Management (continued)

a. Credit Risk

Credit risk is the risk of financial loss due to a financial counter party or another third party failing to meet its financial or contractual obligations to the LCBO. It arises from cash and cash equivalents, derivative financial instruments, and outstanding accounts receivable. LCBO minimizes credit risk associated with the various instruments as follows:

Derivative financial instruments and cash and cash equivalents are placed only with approved counterparties. At March 31, 2018, all derivative instruments and cash and cash equivalents were held with regulated Canadian financial institutions that met minimum credit rating requirements.

Trade and others receivables arise primarily from sales invoiced to independent businesses, agents and other debtors. LCBO does not consider its exposure to credit risk associated with trade and other receivables to be material. As at March 31, 2018, approximately 49% (2017 – 56%) of LCBO's receivable is due from one customer whose account is in good standing.

Where there is objective evidence that the total balance of an accounts receivable is unlikely to be recovered, an allowance for impairment is made to reduce the carrying amount of the accounts receivable to the recoverable amount. See Note 6 for additional disclosures.

b. Liquidity Risk

Liquidity risk is the risk that LCBO may not have cash available to satisfy financial liabilities as they fall due. LCBO seeks to limit its liquidity risk by actively monitoring and managing its available cash reserves to ensure that it has sufficient access to liquidity at all times to meet financial obligations when due as well as those relating to unforeseen events. Cash that is surplus to working capital requirements is managed by LCBO and may be invested in federal/provincial treasury bills, bankers' acceptances, bearer deposit notes, term deposits and guaranteed income certificates, choosing maturities which are aligned with expected cash needs. It may also be held in a bank account if the interest rate is more favourable than the aforementioned investment instruments.

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15. Financial Risk Management (continued)

c. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market price. Market risk typically comprises four main types of risk: foreign exchange risk, interest rate risk, equity risk and commodity risk. Currently, LCBO is exposed only to foreign exchange risk and interest rate risk.

i. Foreign Exchange Risk

LCBO is exposed to foreign exchange risk with respect to inventory purchases denominated in currencies other than the Canadian dollar. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, LCBO has an established non-speculative risk management program that governs the committed and reasonably anticipated foreign currency exposures in significant currencies that must be hedged through permitted hedging instruments. For the year ended March 31, 2018, LCBO hedged its exposure in identified significant currencies (USD, EUR and AUD) through the purchase of foreign exchange forward contracts.

In LCBO's assessment, the impact of fluctuations of foreign exchange rates would not have a significant impact on net income as majority of inventory purchases are in Canadian currency.

ii. Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instruments will fluctuate due to changes in market interest rates. LCBO is exposed to interest rate risk on its cash and cash equivalents of short-term investments with maturity dates of less than 90 days and to a lesser extent on its financial lease obligations (which have fixed interest rates over their entire lease term). In LCBO's assessment, the impact of changes in interest rates would not have a significant impact on net income.

16. Financial Instruments

LCBO uses foreign exchange forward contracts to manage foreign exchange risk on the purchase of inventory in a currency other than the Canadian dollar. LCBO has elected not to use hedge accounting on these derivative financial instruments. The forward contracts are classified as fair value through profit and loss ("FVTPL") and the fair value is estimated by using the difference between the contractual forward price and the forward price at reporting date.

LCBO purchases foreign exchange spot contracts for unhedged foreign currency transactions. The foreign exchange spot contracts are designated as FVTPL and the fair value is estimated by using the difference between the contractual rate and the Bank of Canada closing rate as at March 31, 2018.

As at March 31, 2018, the Board had 115 foreign exchange forward contracts with fair value totaling $1.2 million (2017 - $138K). There were no outstanding spot contracts as at March 31, 2018.

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17. Capital Management

LCBO is a corporation without share capital. Its capital structure consists of cash and cash equivalents and retained earnings.

LCBO's objectives in managing its capital are first to preserve capital and maintain sufficient liquidity to meet future financial commitments and second to maximize the earnings of such capital. By achieving these objectives, LCBO is able to fund its future growth and provide continuous dividends to the Province.

The Board of Directors is responsible for oversight of management including policies related to financial risk management. LCBO management is responsible for overseeing its capital structure and mitigating financial risk in response to changing economic conditions.

18. Revenue

Virtually all revenue is from the sale of goods. In late fiscal 2016, LCBO began the sale of beer in grocery stores where LCBO acts as a wholesaler to authorized grocery stores. In fiscal 2017, the program expanded to include cider and wine sales to grocery stores. Included in revenue is $153.4 million (2017 – $64.7 million) related to the sale of beer, cider and wine to grocery stores.

19. Head Office Sale

On June 8, 2016, LCBO sold its Head Office facility, warehouse facility, retail store and adjacent lands located in downtown Toronto (collectively LCBO Head Office Lands) to Menkes Developments Ltd., on behalf of a partnership comprised of Menkes, Greystone Managed Investments and Triovest Realty Advisors. The sale generated a gain of $271.8 million, calculated as proceeds less closing costs and net book value of LCBO Head Office Lands. The proceeds consisted of a monetary cash payment of approximately $260.0 million and a non-monetary incentive of approximately $23.3 million for the leaseback of a portion of the LCBO Head Office Lands in the interim, until the new office building and retail space is ready for occupancy by LCBO expected in late 2021. The net book value at the time of closing was $10.2 million and closing costs were approximately $1.3 million. The non-monetary incentive of $23.3 million has been included in Prepaid expenses and other assets, refer to Note 8 for more details.

The leases of the yet-to-be constructed office and retail space is expected to commence in late 2021, subject to changes depending on the completion of the project development by the landlord. The initial term for the office lease is twenty years, with the option to extend four further terms of five years. The initial term of the retail lease is ten years with the option to extend four further terms of five years.

As determined under section 4 of the Trillium Trust Act, LCBO transferred $246.2 million in fiscal 2017 to the Consolidated Revenue Fund from the proceeds of disposition.

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20. Selling, General and Administrative Expenses by Nature

The components of selling, general and administration expenses include the following:

	March 31, 2018	March 31, 2017
Employee costs (Note 21)	516,709	491,536
Occupancy costs	192,391	193,175
Depreciation and amortization	69,706	67,502
Debit/credit charges	42,583	41,975
Environmental initiatives	46,955	43,978
Other	115,473	106,811
	983,817	944,977

21. Employee Costs

Employee costs for LCBO for the year ended amounts to the following:

	March 31, 2018	March 31, 2017
Salaries & wages	414,048	398,109
Short-term employee benefits	102,661	93,427
	516,709	491,536

22. Finance Income and Finance Costs

Finance income and costs recognized by LCBO for the year ended amounts to the following:

	March 31, 2018	March 31, 2017
Finance income		
Interest earned	3,495	2,349
Total finance income	3,495	2,349
Finance costs		
Interest on non-pension employee benefits	3,918	3,873
Financing charges on capital leases	39	66
Total finance costs	3,957	3,939

23. Related Parties

Related parties of the LCBO include the Province of Ontario, Ontario Cannabis Retail Corporation ("OCRC"), Stewardship Ontario and key management personnel.

Province of Ontario

For the year ended March 31, 2018, LCBO transferred a total dividend of $2.120 billion (2017 – $2.306 billion) to the Province. For fiscal 2017, the transfer included a dividend of $246.2 million for the sale of LCBO Head Office Lands, which is presented in the Statement of changes in equity. LCBO also provides an annual contribution to the Province for the defined benefit plan which is discussed in Notes 3 and 13.

Ontario Cannabis Retail Corporation ("OCRC")

In April 2017, the federal government introduced legislation to legalize and regulate recreational cannabis in Canada. The proposed federal Cannabis Act will create rules for producing, possessing and selling cannabis across Canada.

On September 8, 2017 the Government of Ontario further announced its proposed framework to manage the federal legalization of recreational cannabis. To ensure safe and socially responsible distribution of recreational cannabis, the Ontario Cannabis Retail Corporation was established on December 12, 2017 with the exclusive right to sell non-medical cannabis in the Province of Ontario through stand-alone stores and an online order service.

The OCRC is an agency of the Province and is a separate non-consolidated entity of the LCBO. In support of OCRC's establishment and initial operations, the LCBO will provide shared services, goods and other property to OCRC that will be recoverable on a cost basis from OCRC.

For the year ended March 31, 2018, $10.2 million (2017 – nil) is included in trade and other receivables related to recovery of costs from OCRC.

Stewardship Ontario

LCBO is responsible under the *Waste Diversion Act*, 2002 to pay municipalities through Stewardship Ontario, an industry funded waste diversion organization for costs associated with container waste and non-container waste recycled through municipal Blue Box systems. For the year ended March 31, 2018, LCBO contributed $2.3 million (2017 - $2.1 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

(thousands of Canadian dollars)

23. Related Parties (continued)

Key Management Personnel

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of LCBO. Key management personnel include members of the Board of Directors, President and Chief Executive Officer, Chief Financial Officer and the top senior officers. The Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on the Audit Committee, Governance Committee or the Human Resources and Compensation Committee.

LCBO key management personnel compensation, including directors' fees comprise of:

	March 31, 2018	March 31, 2017
Salaries and short-term employee benefits	5,397	4,869
Post-employment benefits	413	299
Other long term benefits	115	86
Termination benefits	246	925
	6,171	6,179

24. Ontario Deposit Return Program

On November 6, 2006, the Province entered into an agreement with Brewers Retail Inc. for management of a province-wide container deposit return program ("the program") on wine, liquor and non-common beer containers sold through LCBO, Winery, on-site Microbrewery and Distillery Retail Stores. Brewers Retail Inc. was appointed the exclusive service provider for a period of five years effective February 5, 2007. In October 2015, the Province extended the contract with Brewers Retail Inc. as part of the Master Framework Agreement which ends on September 30, 2025.

Under the program, LCBO collects a deposit of 10 or 20 cents on wine, liquor and most beer containers. LCBO reimburses Brewers Retail Inc. for deposits it pays to customers who return containers to locations it operates, plus a service fee.

For the year ended March 31, 2018, LCBO collected $72.2 million (2017 – $69.1 million) of deposits on containers and was invoiced $56.8 million (2017 - $54.2 million) for refunds to the customers. The net amounts are included in trade and other payables in the Statement of financial position.

In connection with the program, expenditures related to service fees paid to Brewers Retail Inc. for the year ended March 31, 2018, amounted to $44.7 million (2017 – $41.8 million), inclusive of $5.1 million (2017 – $4.8 million) of harmonized sales tax which is unrecoverable by LCBO, but is recoverable by the Province. These expenditures are included in selling, general and administrative expenses in the Statement of income and other comprehensive income.

LCBO's experience indicates that not all container deposits collected would be redeemed based upon its redemption data. Based on historical redemption patterns, for the year ended March 31, 2018, LCBO recognized $14.6 million (2017 - $16.7 million) of unredeemed deposits as other income as LCBO has determined the likelihood of redemption to be remote. The remaining reserve for unredeemed container deposits reflects the ODRP program to-date redemption rate.

25. The Beer Store (TBS) common product deposit return program

LCBO participates in a separate deposit-refund system, TBS common product program, managed and administered by Brewers Retail Inc. for containers that are not within the scope of the Ontario Deposit Return Program. Containers fall under the TBS program if:

(1) the product is available for sale at both the LCBO and TBS; or
(2) the product is an Industry Standard Bottle (ISB) regardless of whether or not the product is available at TBS

The TBS program is not mandated by government regulations; however, the TBS program is a requirement in dealing with Brewers Retail Inc.

Under the program, LCBO purchases imported and domestic beer products from various suppliers including some domestic beer products from TBS. Payment to these suppliers includes the container deposit in addition to the product cost. The container deposit is only paid to the suppliers if the products meet the program criterions above. If the products do not meet either criterion, they are excluded from the TBS common product program and will follow the Ontario Deposit Return Program as described in Note 24.

When LCBO sells TBS common products to customers including imported beer to TBS, the container deposit is collected as part of the sale proceeds.

TBS common product program deposits paid and collected are offset and included in trade and other receivables in the Statement of financial position.

For the year ended March 31, 2018, $2.9 million (2017 – $3.3 million) is included in trade and other receivables related to the TBS common product deposits.

26. Other Matters

<u>Sale of Beer, Cider and Wine in Grocery Stores</u>

In April 2015, at the government's direction, LCBO began to work with the Ministry of Finance and the Premier's Advisory Council On Government Assets on implementing the sale of beer, cider and wine in grocery stores. Up to 450 grocery stores across the province will be allowed to sell beer and cider with up to 300 also selling wine. LCBO is the wholesaler to those authorized stores. Following a competitive process that began in September 2015, the first 60 grocery stores were authorized by the AGCO to sell beer in late 2015, with cider added in June 2016.

Subsequent competitive allocations of the opportunity to sell beer and cider or beer, wine and cider took place; one in 2016 and two in 2017. In addition, up to 70 existing winery retail stores located next to grocery stores were given the opportunity to move inside grocery stores and offer an expanded selection of products. Ontario wine not produced by the owners of such outlets will be purchased from the LCBO. Grocers that sign agreements with winery retail stores to have an outlet operated within their store received an authorization to sell beer and cider purchased from the LCBO.

As of April 2018, there were 362 grocery stores authorized to sell beer, beer and cider or beer, cider and wine. All authorized grocers purchase all beer, wine and cider for sale in grocery stores from the LCBO at a wholesale discount determined through the applicable competitive process.

<u>Collective Bargaining</u>

In June 2017, LCBO and the OPSEU Liquor Board Employees Division ("LBED") reached a tentative memorandum of agreement to renew the collective agreement that expired on March 31, 2017. The new collective agreement was ratified by LCBO bargaining employees on July 19, 2017, followed by ratification by the LCBO's Board of Directors and the Province by a way of an order in council on July 26, 2017.

Responsibility for Financial Reporting

The preparation, presentation and integrity of the financial statements are the responsibility of management. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the estimates, judgments and assumptions necessary to prepare the financial statements in accordance with International Financial Reporting Standards. The accompanying financial statements of the Ontario Cannabis Retail Corporation (OCRC) have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on management's best estimates and judgement.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded, and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function has been established and will independently evaluate the effectiveness of internal controls on an ongoing basis and will report its findings to management and the Finance & Governance Committee of the Board.

The Board of Directors, through the Finance & Governance Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Finance & Governance Committee, composed of four Members who are not employees/officers of the OCRC, generally meets periodically with management, the internal auditors and the Office of the Auditor General of Ontario to satisfy itself that each group has properly discharged its respective responsibility. Also, the Office of the Auditor General of Ontario meets with the Finance & Governance Committee without management present.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards. The Independent Auditor's Report outlines the scope of the Auditor's examination and opinion.

On behalf of management:

Nancy Kennedy
President & Chief Operating Officer

Carol Lyons
Carol Lyons
Controller and Treasurer
June 28, 2018

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Ontario Cannabis Retail Corporation

I have audited the accompanying financial statements of the Ontario Cannabis Retail Corporation, which comprise the statement of financial position as at March 31, 2018, and the statement of loss and comprehensive loss, statement of deficit and statement of cash flows for the period from December 12, 2017 to March 31, 2018, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Cannabis Retail Corporation as at March 31, 2018, and its financial performance and its cash flows for the period from December 12, 2017 to March 31, 2018 in accordance with International Financial Reporting Standards.

Toronto, Ontario
June 28, 2018

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

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ONTARIO CANNABIS RETAIL CORPORATION
Statement of Financial Position

(Canadian dollars)

	Note	**March 31, 2018**
Assets		
Current assets		
Cash	*6*	24,953,119
Trade and other receivables	*7*	1,170,002
Prepaid expenses	*8*	1,275,645
		27,398,766
Non-current assets		
Prepaid services	*8*	200,000
Property, plant and equipment	*9*	2,338,522
		2,538,522
Total assets		29,937,288
Liabilities and deficit		
Current liabilities		
Trade and other payables and provisions	*10*	11,728,298
Non-current liabilities		
Borrowings	*12*	25,015,894
Total liabilities		36,744,192
Deficit		
Accumulated loss		6,806,904
Total deficit		6,806,904
Total liabilities and deficit		29,937,288

See accompanying notes to the financial statements.

Approved By:

Susan E. Pigott

Chair, Board of Directors

Board Member, Chair, Finance and Governance Committee

ONTARIO CANNABIS RETAIL CORPORATION
Statement of Loss and Comprehensive Loss

(Canadian dollars)

	Note	**For the period December 12, 2017 to March 31, 2018** ***(Note 1)***
Revenue	*3*	-
Administrative expenses	*4*	6,805,248
Finance income	*5*	(14,238)
Finance costs	*5*	15,894
Net loss and comprehensive loss		6,806,904

See accompanying notes to the financial statements.

ONTARIO CANNABIS RETAIL CORPORATION
Statement of Changes in Deficit

(Canadian dollars)

	Accumulated loss	Total Deficit
Balance at beginning of period	-	-
Net loss	6,806,904	6,806,904
Balance at March 31, 2018	6,806,904	6,806,904

See accompanying notes to the financial statements.

ONTARIO CANNABIS RETAIL CORPORATION

Statement of Cash Flows

(Canadian dollars)

	For the period December 12, 2017 to March 31, 2018 *(Note 1)*
Operating activities:	
Net loss	(6,806,904)
Adjustments for:	
Depreciation	2,719
Interest on borrowings	15,894
Change in non-cash balances related to operations:	
Trade and other receivables	(1,170,002)
Prepaid expenses	(1,475,645)
Trade and other payables and provisions	11,728,298
Net cash provided by operating activities	2,294,360
Investing activities:	
Purchase of property, plant and equipment	(2,341,241)
Net cash used in investing activities	(2,341,241)
Financing activities:	
Proceeds from borrowings	25,000,000
Net cash provided by financing activities	25,000,000
Net increase in cash	24,953,119
Cash, end of year	24,953,119

See accompanying notes to the financial statements.

ONTARIO CANNABIS RETAIL CORPORATION
Notes to Financial Statements
For the years ended March 31, 2018 and 2017
(Canadian dollars)

1. Corporate and General Information

1.1 The Corporation and its operations

The Ontario Cannabis Retail Corporation ("OCRC", "the Corporation") is a corporation without share capital incorporated under the *Ontario Cannabis Retail Corporation Act*, S.O. 2017, Chapter 26, Schedule 2 ("the Act").

OCRC is a government business enterprise with the exclusive right to sell non-medical cannabis in the Province of Ontario ("Province") when it is legalized in Canada. As an Ontario Crown corporation, OCRC is exempt from income taxes. Per the legislation under *the Act*, OCRC will transfer most of its earnings to the Province in the form of a dividend.

OCRC's head office is located at 1 Yonge Street, 18th Floor, Toronto, Ontario, Canada, M5E 1E5.

1.2 Legalization of cannabis

In April 2017, the federal government introduced legislation to legalize and regulate non-medical cannabis in Canada. The proposed federal Cannabis Act will create rules for producing, possessing and selling non-medical cannabis across Canada. On June 21, 2018, legislation to enact the Cannabis Act received Royal Assent. The provisions of the Cannabis Act come into force on a day or days to be fixed by order of the Governor in Council. On June 20, 2018, the Federal Government announced that the Cannabis Act would come into force on October 17, 2018.

OCRC was established on December 12, 2017 as an agent of the Crown. In Ontario, the Act authorizes OCRC to buy, possess and sell non-medical cannabis and related products. The Corporation's fiscal year begins on April 1 in each year and ends on March 31 in the following year; consequently, these financial statements are for the period commencing December 12, 2017 and ending March 31, 2018.

During the period ending March 31, 2018, OCRC was engaged in set-up activities. Retail operations are expected to commence in the fall of 2018 with the opening of retail stores and commencement of online sales across the Province. OCRC will open additional retail stores by 2020.

2. Basis of Presentation and Significant Accounting Judgments and Policies

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The audited financial statements were approved by the Board of Directors and authorized for issue on June 28, 2018.

2.2 Basis of presentation

These financial statements have been prepared on the historical cost basis.

2.3 Functional and presentation currency

The financial statements are presented in Canadian dollars ("C$"), OCRC's functional currency.

2.4 Accounting standards and amendments not yet effective

The IASB has issued the following standards and amendments that are not applicable to OCRC and that become effective for OCRC subsequent to March 31, 2018:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards:* amendments delete short-term exemptions.
- IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures:* amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. In addition, amendments clarify that long-term interests in an associate or joint venture, to which the equity method is not applied, are accounted for using IFRS 9.
- IFRS 2 *Classification and Measurement of Share-based Payment Transactions:* amendments clarify how to account for certain types of share-based payment transactions.
- IFRS 4 *Insurance Contracts:* amendments, regarding the interaction of IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments, provide two options for entities that issue insurance contracts within the scope of IFRS 4.
- IAS 40 *Transfers of Investment Property:* amendments clarify that transfers of investment property require a reassessment of whether the property continues to meet the definition of investment property.
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*: amendments clarify the exchange rate to be used in transactions that involve consideration paid or received in advance in foreign currency.
- IFRS 17 *Insurance Contracts:* requires entities to account for all insurance contracts in a consistent manner. Insurance obligations will be accounted for using current values, instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements.
- IFRIC 23 *Uncertainty over Income Tax Treatments:* amendments specify how to reflect uncertainty in accounting for income taxes.

2.5 Revenue and cost of sales

OCRC has early applied IFRS 15 *Revenue from Contracts with Customers* in these financial statements.

Revenue is recognized when the Corporation satisfies a performance obligation by transferring control of a promised good or service to a customer. Revenue is measured as the amount of consideration that the Corporation expects to be entitled to in exchange for transferring the good or service to the customer, excluding taxes.

Cost of sales includes the cost of inventories expensed during the period and other costs incurred to fulfill performance obligations to customers.

ONTARIO CANNABIS RETAIL CORPORATION
Notes to Financial Statements
For the years ended March 31, 2018 and 2017
(Canadian dollars)

2.6 Finance income and finance costs

Finance income comprises interest income on cash balances. Finance costs consist of interest expense on borrowings and lease liabilities.

Interest income and expense are calculated using the effective interest method.

2.7 Cash and cash equivalents

Cash and cash equivalents are recognized initially at fair value plus transaction costs and subsequently measured at amortized cost.

Cash equivalents are highly liquid investments with original maturity dates of 90 days or less from the date of acquisition.

2.8 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment, if any.

At the end of each reporting period, OCRC estimates the amount of lifetime expected credit losses on its trade and other receivables and reduces the carrying amount of account receivables. Lifetime expected credit losses are the losses that may result from all possible default events. OCRC estimates the amount of expected credit losses based on individual accounts, taking into consideration customer credit worthiness, current economic trends, past experience and forecasts of future economic conditions. The recognized impairment loss (or gain) is the amount of the expected credit losses (or reversals) that is required to adjust the loss allowance to the amount of lifetime expected credit losses at the reporting date.

2.9 Prepaid expenses

Cash outlays for goods and services that are to be received in future periods are recognized as prepaid expenses. Expenses are recognized in net income or loss when the goods and services are received.

2.10 Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition, construction or development of the asset.

Depreciation is recognized in the income statement over the expected useful lives of each major component of property, plant and equipment, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Property, plant and equipment under construction and not available for use are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use.

ONTARIO CANNABIS RETAIL CORPORATION
Notes to Financial Statements
For the years ended March 31, 2018 and 2017
(Canadian dollars)

The cost of subsequently replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits related to the part will flow to OCRC, and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognized, if any. The costs of the day-to-day servicing of property, plant and equipment are recognized as expense as incurred.

Annually OCRC reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine any impairment loss. Where the asset does not generate cash flows that are independent from other assets, OCRC estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. The CGU is deemed to be each retail store. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Any impairment loss is recognized as expense in the period in which it occurs.

The estimated useful lives of property, plant and equipment are as follows:

Leasehold improvements	5 to 10 years, or lease term, if shorter
Machinery and equipment	4 to 10 years
Computer hardware	4 years

2.11 Trade and other payables and provisions

Trade and other payables are initially measured at fair value less transaction costs and are subsequently measured at amortized cost.

Short-term employee benefits are benefits that are expected to be wholly settled within twelve months of the annual reporting period in which they are earned by employees. Short-term employee benefits are expensed and a provision is recognized when employees render service.

2.12 Lease liabilities

OCRC has early applied IFRS 16 *Leases* in these financial statements.

Except for short-term leases and leases of low-value assets, OCRC recognizes a lease liability on the lease commencement date, unless the lease term is twelve months or less or the underlying asset has a low value. The initial amount of the lease liability comprises the present value of the lease payments during the lease term. The lease term is the non-cancellable period for which OCRC has the right to use the asset, including extension or termination option periods that OCRC is reasonably certain to exercise.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lease payments are discounted using the Corporation's incremental borrowing rate. Subsequently, the lease liability is measured by increasing the liability to reflect interest and decreasing the liability to reflect payments. The lease liability is remeasured to reflect reassessment or modification or to reflect in-substance fixed lease payments.

Short-term leases and leases of low-value assets are accounted for by recognizing the lease payments on a straight-line basis over the lease term.

ONTARIO CANNABIS RETAIL CORPORATION
Notes to Financial Statements
For the years ended March 31, 2018 and 2017
(Canadian dollars)

2.13 Borrowings

Borrowings are financial liabilities with original maturity dates greater than one year. They are initially measured at fair value less transaction costs and subsequently measured at amortized cost, using the effective interest method.

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are recognized in the cost of the qualifying asset. Qualifying assets are those that require a substantial period of time to prepare for their intended use.

2.14 Post-employment and other long-term employee benefits

Employee pension benefits
OCRC's contributions to defined benefit pension plans are accounted for on a defined contribution basis with OCRC's contribution recognized as expense in the period the contributions become payable.

Other long-term employee benefits
Other long-term employee benefits are employee benefits that are not expected to be wholly settled within twelve months of the annual reporting period in which they are earned by employees.

Other long-term employee benefit liabilities are actuarially determined using the Projected Unit Credit Method and management's best estimate. The annual benefit cost is the sum of the service cost and one year's interest cost plus remeasurements of the defined benefit obligation. Actuarial gains and losses due to remeasurements of the defined benefit liabilities are recognized in administrative expenses in the period in which they occur.

2.15 Financial instruments

OCRC has early applied IFRS 9 *Financial Instruments* in these financial statements.

Financial assets and financial liabilities are recognized when OCRC becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, plus or minus transaction costs that are directly attributable to their acquisition. The measurement of financial instruments in subsequent periods and the recognition of changes in fair value depend on the category in which they are classified.

(i) Financial assets
Classification of financial assets depends on the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset is subsequently measured at amortized cost if both of the following conditions are met:

(a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows:
(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All of the financial assets held by OCRC meet the conditions for subsequent measurement at amortized cost.

(ii) Financial liabilities
All financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as subsequently measured at fair value through profit or loss. Such liabilities include derivatives (other than derivatives that are financial guarantee contracts or are designated and effective hedging instruments), other liabilities held for trading, and liabilities that are designated to be measured at fair value through profit or loss. For financial liabilities subsequently measured at fair value through profit or loss, changes in fair value related to changes in own credit risk are presented separately in other comprehensive income.

All of the financial liabilities held by OCRC are measured subsequently at amortized cost.

(iii) Effective interest method
The amortized cost of a financial asset or liability and interest income or interest expense is calculated using the effective interest method.

2.16 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities that are measured at fair value on a recurring or non-recurring basis are classified according to a three-level hierarchy based on the type of inputs used to make the measurements. This hierarchy is as follows:

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than the Level 1 quoted prices that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market inputs (unobservable inputs).

2.17 Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the carrying amount of assets and liabilities, disclosures of contingent assets and liabilities as at the date of the financial statements, and the carrying amount of revenues and expenses for the reporting period. These estimates are changed periodically and, as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

The judgments and key sources of estimation uncertainty that have a significant effect on the amounts recognized in these financial statements are disclosed in the relevant notes to which the estimates and judgments relate.

3. Revenue and Cost of Sales

OCRC's revenue will comprise sales of cannabis products and accessories.

No revenues or costs of sales may occur until the sale of non-medical cannabis is legalized and OCRC's retail operations commence.

ONTARIO CANNABIS RETAIL CORPORATION
Notes to Financial Statements
For the years ended March 31, 2018 and 2017
(Canadian dollars)

4. Administrative Expenses

Administration expenses include the following costs incurred during the period ended March 31, 2018 to set up OCRC:

LCBO shared services (Note 16b)	6,666,054
Employee expenses	86,379
Depreciation	2,719
Other expenses	50,096
	6,805,248

5. Finance Income and Finance Costs

Finance income and costs for the period ended March 31, 2018 include the following:

Interest income on cash	(14,238)
Interest on borrowings (Note 12)	15,894
	1,656

6. Cash

Cash as at March 31, 2018 includes interest-bearing bank accounts. OCRC did not hold any cash equivalents as at March 31, 2018.

7. Trade and Other Receivables

At March 31, 2018, trade and other receivables include the following:

Recoverable input tax credits	1,155,764
Interest receivable	14,238
	1,170,002

Expected credit losses on trade and other receivables are nil.

The fair value of trade and other receivables approximates its carrying amounts due to its short-term nature.

ONTARIO CANNABIS RETAIL CORPORATION
Notes to Financial Statements
For the years ended March 31, 2018 and 2017
(Canadian dollars)

8. Prepaid Expenses

Prepaid expenses for the period ended March 31, 2018 include the following:

Short-term prepaid expenses	
Prepaid services	1,053,724
Prepaid warehouse lease (Note 11)	160,868
Prepaid insurance	61,053
	1,275,645
Long-term prepaid services	200,000
	1,475,645

9. Property, Plant and Equipment

The following table presents the net book value and changes in the cost and accumulated depreciation of property, plant and equipment for the period ended March 31, 2018:

	Machinery and equipment	Computer hardware	Work-in-progress	Total
Cost - additions	44,986	105,399	2,190,856	2,341,241
Accumulated depreciation	692	2,027	-	2,719
Net book value	44,294	103,372	2,190,856	2,338,522

10. Trade and Other Payables and Provisions

Trade and other payables and provisions consist of amounts payable to LCBO for shared service costs and amounts payable to other suppliers, as well as payroll accruals and withholdings.

At March 31, 2018, trade and other payables and provisions include the following:

Payable to LCBO	10,150,468
Accrued expenses	1,573,779
Provisions	4,051
	11,728,298

The fair value of trade and other payables and provisions approximates their carrying amounts due to their short-term nature.

(Canadian dollars)

11. Lease Liabilities

Expenses relating to leases of low-value assets (printers) accounted for on a straight-line basis over the lease term were $3,657 for period ending March 31, 2018.

Expenses relating to short-term leases (short-term office accommodation) accounted for on a straight-line basis over the lease term were $196,329 for the period ending March 31, 2018. Commitments for short-term leases in fiscal 2019 are $589,275.

LCBO has entered into an arrangement with a warehousing services provider on behalf of OCRC. The warehousing services provider leases a warehouse facility from a third party. LCBO and OCRC are not parties to this lease. The warehousing services provider, the third party and LCBO have agreed to assignment of the lease to LCBO in the event that a written request is made by the warehousing services provider and LCBO. As at March 31, 2018, the lease has not been assigned to LCBO.

OCRC is committed to reimburse LCBO for lease expenses related to OCRC's use of the warehouse. The commitment for these lease expenses is included in the shared services commitments disclosed in Note 16b.

12. Borrowings

On February 14, 2018, OCRC entered into a loan agreement with the Ontario Financing Authority and the Minister of Finance. Refer to Note 16. Under the agreement, for the purpose of financing OCRC's set-up and initial operations, OCRC may draw funds from the Ontario Financing Authority to a maximum principal amount of $150 million until December 31, 2019. No payments of interest or principal are required until July 1, 2020. The loan may be secured by a general security agreement, if required by the Ontario Financing Authority. The loan is at market terms.

Until December 31, 2019, the loan bears interest at a floating rate that is equal to the Province's all-in cost of funds for a one-month treasury bill, including fees and commissions, plus 52.5 basis points. This rate represents a market rate as it is available to OCRC from other market participants. Interest is accrued, compounded and reset monthly on the first business day of the month. The interest rate at March 31, 2018 is 1.785%.

At March 31, 2018, OCRC has drawn $25 million and accrued interest of $15,894. Changes in borrowings for the period ended March 31, 2018 are as follows:

Cash inflows - Draws	25,000,000
Non-cash changes - Interest expense	15,894
Total changes in borrowings	25,015,894

The loan is repayable in equal semi-annual payments over a ten-year term commencing July 1, 2020. The interest rate will be the Province's all-in cost of funds as at January 1, 2020 for a ten-year amortizing loan, including fees and commissions, plus 52.5 basis points. Interest will compound semi-annually.

The fair value of borrowings at March 31, 2018 approximates their carrying amount due to their recent issuance.

13. Post-Employment and Other Long-term Employee Benefits

(i) Employee pension benefits

OCRC provides defined pension benefits to all permanent employees and to non-permanent employees who elect to participate through the Public Service Pension Fund ("PSPF"). The Province, which is the sole sponsor of the PSPF, determines OCRC's annual contributions to the fund. As the sponsor is responsible for ensuring that the funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of OCRC.

For the period ended March 31, 2018, OCRC's pension contributions of $4,607 are included in administrative expenses.

(ii) Other long-term employee benefit plans

Other long-term employee benefits provided by OCRC include self-insured workers' compensation benefits. No amount has been recognized for this liability as OCRC has not incurred any workers' compensation claims.

14. Financial Risk Management

OCRC's Treasury Risk Management Policies regarding financial risk management and internal controls are being developed to set out a prudential framework for the identification, measurement, management and control of financial risks. These policies will be a fundamental part of OCRC's long-term strategy covering areas such as liquidity risk and interest risk. OCRC's financial risk management approach is to minimize the potential adverse effects from these risks on its financial performance. OCRC is exposed to the following financial risks:

(a) Credit risk
Credit risk is the risk of financial loss due to a financial counterparty or another third party failing to meet its financial or contractual obligations to the OCRC.

OCRC's credit risk is limited to its cash accounts. OCRC minimizes credit risk by restricting its banking and cash management to arrangements with Schedule A banks.

(b) Liquidity Risk
Liquidity risk is the risk that OCRC may not have cash available to satisfy financial liabilities as they fall due.

OCRC seeks to limit its liquidity risk by actively monitoring and managing its available cash reserves to ensure that it has sufficient access to liquidity at all times to meet financial obligations when due as well as those relating to unforeseen events. In addition, OCRC has mitigated liquidity risk until 2020 through financing arrangements with the Ontario Financing Authority. During this period up to $150 million is available to OCRC for its set-up costs and initial operations. Refer to Note 12.

(c) Interest Rate Risk
Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instruments will fluctuate due to changes in market interest rates. OCRC is exposed to interest rate risk on its cash deposited in bank accounts and on its loan liability balance owed to

(Canadian dollars)

the Ontario Financial Authority (OFA). The OFA Loan interest rate is variable, based on the one-month Province of Ontario treasury bill rate plus OFA services charges.

A sensitivity analysis for OCRC's exposure to interest rate risk for the period ending March 31, 2018 is as follows:

	Increase/(Decrease) in net income	
Interest rate risk exposure	**0.5% increase in interest rates**	**0.5% decrease in interest rates**
Cash	445	(445)
Borrowings	(4,452)	4,452

15. Capital Management

OCRC is a corporation without share capital. Its capital structure consists of cash and cash equivalents, borrowings and accumulated deficit.

OCRC's objectives in managing its capital are to preserve capital and to maintain sufficient liquidity to meet future financial commitments, including the repayment of borrowings from the Ontario Financing Authority. By achieving these objectives, OCRC is able to fund its future growth.

The Board of Directors is responsible for oversight of management including policies related to financial risk management. OCRC management is responsible for overseeing its capital structure and mitigating financial risk in response to changing economic conditions.

16. Related Parties

OCRC is related to the Province of Ontario and its agencies, ministries and crown corporations.

Related party transactions are measured at the amount of consideration agreed to by the related parties and include, during the period ended March 31, 2018:

- Ontario Financing Authority loan to OCRC (Refer to Note 12), and
- LCBO management and shared services to OCRC.

(a) Ontario Financing Authority

On February 14, 2018, OCRC entered into a loan agreement with the Ontario Financing Authority and the Minister of Finance to finance OCRC's set-up costs, including shared services provided by LCBO. The loan is at market terms. Refer to Note 12.

(b) LCBO

LCBO provided services, goods and other property to OCRC to support its establishment and oversee its initial operations. These services and goods are provided to OCRC on a cost basis. Transfers of property, plant and equipment are provided at LCBO's carrying amount.

ONTARIO CANNABIS RETAIL CORPORATION
Notes to Financial Statements
For the years ended March 31, 2018 and 2017
(Canadian dollars)

For the period ended March 31, 2018, amounts charged to OCRC, net of harmonized sales tax, by LCBO were as follows:

Shared administrative services	5,945,588
Property, plant and equipment	1,536,156
Prepaid items	1,469,796
Insurance	43,165
	8,994,705

Including harmonized sales tax, the amount due to LCBO as at March 31, 2018 is $10,150,468. In addition, OCRC has accrued liabilities for goods and service received as at March 31, 2018 that will be charged by LCBO in future periods. The amounts accrued are as follows:

Shared administrative services	712,196
Property, plant and equipment	55,224
Prepaid items	777
	768,197

At March 31, 2018, commitments to LCBO related to a warehouse lease are as follows:
Fiscal 2019 - $364,177;
Fiscal 2020 - $569,051; and
Fiscal 2021 - $588,730.

(c) Key management personnel

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of OCRC. Key management personnel include members of the Board of Directors as well as the President and Chief Operating Officer and top senior officers of OCRC. Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on the Finance and Governance Committee and the Human Resources and Compensation Committee.

Key management personnel compensation, including directors' fees, for the period ending March 31, 2018 is comprised of per diem payments of $11,560 to members of the Board of Directors.

(d) Other

Other related party transactions include payments to the entities related to the Province of Ontario for certain employee benefits, such as workers compensation benefits amounts payable to WSIB, employer health tax payable to the Ministry of Finance and contributions to employee pensions payable to the Ontario Pension Board. The costs of these benefits are presented in administrative expenses. The amounts owing to these related parties are presented in trade and other payables and provisions.

17. Commitments for Expenditure

As at March 31, 2018, OCRC's commitments are limited to the lease arrangements disclosed in Note 11 and shared services arrangements disclosed in Note 16.

18. Contingent Liabilities

Based upon legal assessment and information presently available, OCRC has determined that it is not exposed to any contingent liabilities and no amount is recognized in these financial statements.

19. Subsequent Events

Subsequent to March 31, 2018, OCRC entered into arrangements to lease premises for four stores. The leases are for five-year terms with minimum lease payments as follows:

Fiscal 2019 - $207,405;
Fiscal 2020 - $355,552;
Fiscal 2021 - $355,552:
Fiscal 2022 - $355,552;
Fiscal 2023 - $355,552; and
Future years - $149,121.

ONTARIO LOTTERY AND GAMING CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR ANNUAL REPORTING

The accompanying consolidated financial statements of the Ontario Lottery and Gaming Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. Where required, management has made informed judgements and estimates in accordance with International Financial Reporting Standards.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit and Risk Management Committee, which is composed entirely of directors who are neither officers nor employees of the Corporation. The Audit and Risk Management Committee reviews the financial statements and recommends them to the Board for approval. This Committee meets periodically with management, internal audit and the external auditors.

To discharge its responsibility, management maintains an appropriate system of internal control to provide reasonable assurance that relevant and reliable consolidated financial statements are produced and that the Corporation's assets are properly safeguarded. The Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their applications, on an ongoing basis. The reports prepared by the internal auditors are reviewed by the Committee. The Vice President, Audit Services, responsible for Internal Audit, reports directly to the President and Chief Executive Officer with unrestricted access to the Audit and Risk Management Committee.

KPMG LLP, the independent auditor appointed by the Board of Directors upon the recommendation of the Audit and Risk Management Committee, has examined the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements. The independent auditor has full and unrestricted access to the Committee.

Stephen Rigby
President and Chief Executive Officer

Lisa Bell-Murray
Senior Vice President and
Chief Financial Officer

June 28, 2018

KPMG LLP
Bay Adelaide Centre
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Toronto ON M5H 2S5
Canada
Tel 416-777-8500
Fax 416-777-8818

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ontario Lottery and Gaming Corporation
and the Minister of Finance of Ontario

We have audited the accompanying consolidated financial statements of Ontario Lottery and Gaming Corporation, which comprise the consolidated statements of financial position as at March 31, 2018 and 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

KPMG

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ontario Lottery and Gaming Corporation as at March 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 28, 2018
Toronto, Canada

Ontario Lottery and Gaming Corporation
Consolidated Statements of Financial Position
As at March 31, 2018 and 2017
(in thousands of dollars)

	Notes	March 31, 2018	March 31, 2017
Assets			
Current assets			
Cash and cash equivalents		$ 208,903	$ 307,224
Restricted cash	6	59,955	62,124
Trade and other receivables	7	209,558	150,931
Prepaid expenses		33,285	47,164
Inventories	8	38,156	31,258
Assets held for sale	10	117,987	112,606
Total current assets		667,844	711,307
Non-current assets			
Restricted cash	6	119,903	121,301
Property, plant and equipment	9	1,148,979	1,105,676
Other asset	11	-	140,613
Goodwill		1,776	1,776
Total non-current assets		1,270,658	1,369,366
Total assets		**$ 1,938,502**	**$ 2,080,673**
Liabilities and Equity			
Current liabilities			
Trade and other payables	12	$ 364,841	$ 356,857
Provisions	13	6,007	6,784
Due to operators and service providers	16	94,427	47,857
Due to the Government of Canada	18	27,330	16,178
Deferred revenues		32,522	11,160
Current portion of long-term debt	21	19,734	21,397
Liabilities held for sale	10	9,437	1,007
Total current liabilities		554,298	461,240
Non-current liabilities			
Due to operators and service providers	16	148,230	145,834
Due to the Government of Canada	18	16,305	16,042
Long-term debt	21	287,167	200,227
Employee benefits	23	16,190	17,674
Total non-current liabilities		467,892	379,777
Total liabilities		1,022,190	841,017
Equity			
Retained earnings		734,064	1,056,010
Contributed surplus		62,345	62,345
Reserves	6	119,903	121,301
Total equity		916,312	1,239,656
Total liabilities and equity		**$ 1,938,502**	**$ 2,080,673**

Related party transactions (Note 15)
Commitments (Note 16 and 24)
Contingencies (Note 25)
Subsequent events (Note 27)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board

George L Cooke

George L Cooke, Chair

L O'Neill

Lori O'Neill, Director

Ontario Lottery and Gaming Corporation
Consolidated Statements of Comprehensive Income
For the years ended March 31, 2018 and 2017
(in thousands of dollars)

	Notes	March 31, 2018	March 31, 2017
Revenues			
Gaming		$ 7,455,985	$ 7,352,500
Non-gaming		121,731	122,373
		7,577,716	7,474,873
Direct expenses			
Prizes		2,115,607	2,035,482
Commissions and fees		650,980	603,873
Win contribution	17	312,929	289,707
Food, beverage and other purchases		103,074	104,252
Ticket printing		46,904	40,659
		3,229,494	3,073,973
Contribution margin		4,348,222	4,400,900
Indirect expenses (income)			
Personnel		855,794	933,843
Marketing and promotion		281,774	286,778
Amortization	9,11	204,426	155,957
Payments to the Government of Canada		341,609	315,725
Cost of premises and equipment		266,694	315,620
Regulatory fees		34,587	41,103
Gaming Revenue Sharing Payment	24.d	139,561	137,349
Finance income	14	(10,998)	(10,934)
Finance costs	14	16,023	9,430
(Gains) losses on disposal of property, plant and equipment, net	19	(107,086)	2,593
Other	20	151,964	142,233
		2,174,348	2,329,697
Net income and comprehensive income		$ 2,173,874	$ 2,071,203

Other information (Note 26)

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Lottery and Gaming Corporation
Consolidated Statements of Changes in Equity
For the years ended March 31, 2018 and 2017
(in thousands of dollars)

	Retained earnings	Contributed surplus	Capital renewals reserves	Operating reserves	Severance reserves	Total
Balance at March 31, 2016	$ 1,129,256	$ 62,345	$ 18,503	$ 54,308	$ 46,146	$ 1,310,558
Net income and comprehensive income	2,071,203	-	-	-	-	2,071,203
Contributions or distributions						
Transfers to reserves	(2,344)	-	764	1,208	372	-
Payments to the Province of Ontario	(2,142,105)	-	-	-	-	(2,142,105)
Balance at March 31, 2017		62,345	$ 19,267	$ 55,516	$ 46,518	$ 1,239,656
Net income and comprehensive income	2,173,874	-	-	-	-	2,173,874
Contributions or distributions						
Transfers to (from) reserves	1,398	-	(3,167)	1,233	536	-
Payments to the Province of Ontario	(2,497,218)	-	-	-	-	(2,497,218)
Balance at March 31, 2018	$ 734,064	$ 62,345	$ 16,100	$ 56,749	$ 47,054	$ 916,312

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Lottery and Gaming Corporation
Consolidated Statements of Cash Flows
For the years ended March 31, 2018 and 2017
(in thousands of dollars)

	Notes	March 31, 2018	March 31, 2017
Cash flows from operating activities			
Net income and comprehensive income		$ 2,173,874	$ 2,071,203
Adjustments to reconcile profit for the period to net cash from operating activities:			
Amortization	9,11	204,426	155,957
(Gains) Losses on disposal of property, plant and equipment, net	19	(107,086)	2,593
Net finance costs (income)	14	5,025	(1,504)
Impairment loss on property, plant and equipment	9	976	2,831
Other long-term employee benefits	23.c	(1,484)	2,159
Operating cash flows before change in non-cash working capital		2,275,731	2,233,239
Changes in non-cash working capital and current restricted cash:			
Decrease (increase) in current restricted cash		2,169	(5,182)
(Increase) decrease in trade and other receivables		(58,627)	8,209
Decrease in prepaid expenses		13,879	7,811
(Increase) in inventories		(6,898)	(3,210)
Increase in trade and other payables		15,750	36,245
(Decrease) increase in provisions		(777)	961
Increase in due to operators and service providers		46,570	7,163
Increase (decrease) in due to the Government of Canada		11,152	(1,331)
Increase (decrease) in deferred revenues		21,362	(5,171)
Net cash from operating activities		2,320,311	2,278,734
Cash flows from (used) in investing activities			
Interest received		10,998	10,934
Capital expenditures		(113,241)	(116,067)
Increase in net assets held for sale		(22,310)	(30,161)
Proceeds on disposal of property, plant and equipment		232,353	103
Decrease (increase) in non-current restricted cash		1,398	(2,344)
Net cash from (used) in investing activities		109,198	(137,535)
Cash flows (used) in financing activities			
Interest paid		(13,364)	(6,814)
Increase in long-term debt		3,400	8,250
Repayments of long-term debt		(20,648)	(18,340)
Payments to the Province of Ontario		(2,497,218)	(2,142,105)
Net cash (used) in financing activities		(2,527,830)	(2,159,009)
(Decrease) in cash and cash equivalents		(98,321)	(17,810)
Cash and cash equivalents, beginning of year		307,224	325,034
Cash and cash equivalents, end of year		$ 208,903	$ 307,224
Supplemental disclosure relating to non-cash financing and investing activities:			
Acquisition of property, plant and equipment through finance leases		$ 243,303	$ 2,249
Acquisition of property, plant and equipment not yet paid for		$ 3,782	$ 11,139

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements
For the years ended March 31, 2018 and 2017
(tabular amounts in thousands of Canadian dollars)

1. Reporting entity

Ontario Lottery and Gaming Corporation (OLG or the Corporation) was established without share capital on April 1, 2000 pursuant to the *Ontario Lottery and Gaming Corporation Act, 1999*. The Corporation is classified as an Operational Enterprise Agency of the Ontario government and is responsible for conducting and managing lottery games, Charitable Gaming (cGaming), Internet Gaming (iGaming), Land-based Gaming, which includes OLG operated Slots and Casinos, Service Provider-operated Slots and Casinos and Resort Casinos; Caesars Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (Fallsview) in the Province of Ontario. In addition, the Corporation proudly supports and administers funding to Ontario's horse racing industry (Note 24.e).

As at March 31, 2018, the Corporation had operating agreements with Caesars Entertainment Windsor Limited (CEWL), CHC Casinos Canada Limited and Falls Management Group, L.P. for the operation of Caesars Windsor, Casino Rama, Casino Niagara and Fallsview, respectively. The Corporation consolidates the financial positions and results of the Resort Casinos but not those of their respective operators. OLG also had an operating agreement with Great Blue Heron Gaming Company for the operation of Great Blue Heron Casino (GBHC). This agreement was terminated on January 23, 2018 at which time an agreement with a new service provider as detailed in Note 2 became effective. OLG consolidated the financial results of GBHC up until January 23, 2018, which was the period OLG controlled the operations.

As detailed in Note 2, the Corporation entered into Casino Operating Services Agreements (COSAs) with certain Service Providers. The Corporation does not control these Service Providers and therefore does not consolidate the financial position or results of operations of these Service Providers. In accordance with the COSAs, OLG records its share of gaming revenue generated at the Casino or Slot facility operated by the Service Provider and is recognized in the same period the game is played (Note 4.c(iii)). In addition to the long-term gaming revenue share arrangement, when the OLG sites transition to service providers, OLG records any applicable gains on sale of gaming bundle assets (Note 19).

The Corporation’s head office and corporate office, respectively, are located at:

- 70 Foster Drive, Suite 800, Sault Ste. Marie, Ontario, P6A 6V2
- 4120 Yonge Street, Suite 402, Toronto, Ontario, M2P 2B8

These Consolidated Financial Statements were authorized for issue by the Board of Directors of the Corporation on June 28, 2018.

2. Modernizing Gaming in Ontario

As part of the Corporation's modernization strategy, the Corporation has bundled all slots at racetracks and casino operations, with the exception of Caesars Windsor, into eight gaming bundles. The bundles transfer the tangible assets, working capital and the right to operate and build to private sector service providers (each, a Service Provider) following the successful procurement process. Once the Request for Proposal (RFP) stage for a gaming bundle is completed, OLG selects a Service Provider and a Transition and Asset Purchase Agreement (TAPA) is signed by the parties. The TAPA commits the Service Provider to acquire certain assets and assume certain liabilities related to the gaming sites in the bundle and to sign the Casino Operating and Services Agreement (COSA), which governs the operations of the gaming sites in the bundle. OLG will continue to conduct and manage land-based gaming sites in the bundles with the Service Providers assuming the day-to-day operations.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements
For the years ended March 31, 2018 and 2017
(tabular amounts in thousands of Canadian dollars)

2. Modernizing Gaming in Ontario (continued)

OLG's procurement activities for existing and proposed gaming facilities either have been completed or remain in progress as outlined in the chart below:

OLG Gaming Bundle	Sites	Service Provider	Status of Bundle	COSA Effective Date
East	Shorelines: Casino Thousand Islands Slots at Kawartha Downs Casino Belleville	Ontario Gaming East Limited Partnership (OGELP)	TAPA signed on September 8, 2015 COSA signed on January 11, 2016	January 11, 2016
Southwest	Gateway Casinos: Point Edward London Clinton Dresden Hanover Woodstock	Gateway Casinos & Entertainment Limited (Gateway)	TAPA signed on December 13, 2016 COSA signed on May 9, 2017	May 9, 2017
North	Gateway Casinos: Sault Ste. Marie Thunder Bay Sudbury North Bay (Optional New Build) Kenora (Optional New Build)	Gateway	TAPA signed on December 13, 2016 COSA signed on May 30, 2017	May 30, 2017
Ottawa	Rideau Carleton Raceway Casino	HR Ottawa L.P. (Hard Rock)	TAPA signed on May 15, 2017 COSA signed on September 12, 2017	September 12, 2017
Greater Toronto Area	Casino Woodbine Casino Ajax Great Blue Heron Casino	Ontario Gaming GTA Limited Partnership (OGGLP)	TAPA signed on August 7, 2017 COSA signed on January 23, 2018	January 23, 2018
West Greater Toronto Area	Elements Casino Brantford Flamboro Mohawk Grand River	Ontario Gaming West GTA Limited Partnership (OGWGLP)	TAPA signed on December 18, 2017 COSA signed on May 1, 2018 (Note 27)	May 1, 2018
Central	Slots at Georgian Casino Rama Resort Simcoe County (Optional New Build)	Gateway	TAPA signed on March 14, 2018	To be determined (TBD)
Niagara	Casino Niagara Fallsview Casino Resort	TBD	RFP issued April 10, 2017	TBD

3. Basis of preparation

a. Statement of compliance

These Consolidated Financial Statements include the accounts of the Corporation and the wholly owned subsidiary, Ontario Gaming Assets Corporation, and have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

b. Basis of measurement

These Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments classified as financial assets through profit and loss that are measured at fair value (Note 4.k).

c. Functional and presentation currency

These Consolidated Financial Statements are presented in Canadian dollars. The Canadian dollar is the Corporation's functional currency and the currency of the primary economic environment in which the Corporation operates.

d. Use of estimates and judgments

The preparation of these Consolidated Financial Statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Consolidated Financial Statements are included in the following notes:

- Leases (Note 4.o)
- Consolidation (Note 4.a)

Areas of significant estimation and uncertainty that have a significant effect on the amounts recognized in the Consolidated Financial Statements, and could result in a material adjustment within the next fiscal year, are discussed in the following notes:

- Property, plant and equipment – useful lives and residual values (Note 4.l)
- Recoverability of property, plant and equipment (Note 9)
- Disposal group held for sale (Note 10)
- Provisions (Note 13)
- Obligations under finance leases (Note 21.c)
- Valuation of financial instruments (Note 22)
- Employee benefits (Note 23)
- Contingencies (Note 25)

4. Significant accounting policies

The following accounting policies have been applied consistently by the Corporation and its wholly owned subsidiary to the Consolidated Financial Statements as at and for the years ended March 31, 2018 and March 31, 2017.

a. Basis of consolidation

The Consolidated Financial Statements include the accounts of the Corporation, and the wholly owned subsidiary which it controls and the Resort Casinos. The Corporation consolidates the results of operations prior to the transition of the sites to Service Providers (Note 2). The Corporation does not control any of the Gaming Bundle Service Providers (Note 2) and therefore does not consolidate their respective financial position and results. In accordance with the agreements entered into with the Services Providers, OLG recognizes its share of revenue as disclosed in Note 4.c(iii). Control is achieved when the Corporation is exposed to, or has rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated on consolidation.

b. Foreign currency

Monetary assets and liabilities denominated in foreign currencies at the reporting date are converted to the Corporation's functional currency at the exchange rates at that date. Non-monetary assets and liabilities in foreign currencies measured in terms of historical cost are converted at historical exchange rates at the date of the transaction. Transactions in foreign currencies are converted to the Corporation's functional currency using the exchange rates at the date of the transactions. The Consolidated Statements of Comprehensive Income items are converted at the rate of exchange in effect on the transaction date. Foreign currency transaction gains and losses are recognized within Finance income or cost in the Consolidated Statements of Comprehensive Income in the period in which they arise. The Corporation does not have any foreign operations.

c. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized for the following major business activities:

(i) Lottery

Lottery products are sold to the public by contracted lottery retailers, with LOTTOMAX, LOTTO 6/49 and ENCORE products also available for purchase over the Internet at PlayOLG.ca. Revenue from tickets sold to customers for lottery games, for which results are determined based on a draw, is recognized when the related draw occurs. Revenue from INSTANT games is recognized when retailers make them available for sale to the public, as indicated by the retailers' activation of tickets which acts as a proxy for the eventual sale to the customer. Revenue from Sports wagering games is recognized when the ticket is sold to the customer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

4. Significant accounting policies (continued)

c. Revenue recognition (continued)

(ii) cGaming

cGaming products are sold to the public by cGaming Centre service providers and not-for-profit foundations. Revenue for all cGaming products is recognized in the same period the game is played, net of prizes paid.

(iii) Land-based Gaming (Slots and Casinos and Resort Casinos)

Gaming revenue from OLG-operated sites and Resort Casinos:

Gaming revenue includes revenue from slot and table game operations at Slots and Casinos facilities operated by OLG and Resort Casinos. This is recognized in the same period the game is played, net of prizes paid. Gaming revenue is recorded net of the change in accrued jackpot liabilities and liabilities under customer loyalty incentive programs.

Gaming revenue from Land-based Gaming Service Provider-operated sites:

Gaming revenue includes OLG's share, pursuant to the COSA, of the gaming revenue generated at the Casino or Slot facility operated by the Service Provider and is recognized in the same period the game is played. OLG's share of revenue is after the deduction of fees due to Service Providers primarily comprising a fixed fee, a variable fee (calculated as a percentage of gaming revenue above a set revenue threshold) and an amount for permitted capital expenditures.

Non-gaming revenue from OLG-operated sites and Resort Casinos:

Non-gaming revenue includes revenue earned from accommodations, food and beverage, entertainment centres and other services excluding the retail value of accommodations, food and beverage and other goods and services provided to customers on a complimentary basis at Slots and Casinos operated by OLG and at Resort Casinos. Non-gaming revenue is recorded at the retail value and is recognized as goods are delivered and services performed. In accordance with the COSAs, OLG does not recognize non-gaming revenue generated at Service Provider-operated sites.

(iv) iGaming

iGaming revenue includes revenue earned from casino-style games available over the Internet at PlayOLG. This is recognized in the same period the game is played, net of prizes paid.

d. Customer loyalty incentive programs

The Corporation has customer loyalty incentive programs whereby customers have the choice to receive free or discounted goods and services and, in many cases, the right to receive cash. Some of these customer loyalty incentive programs allow customers to earn points based on the volume of play during gaming transactions. These points are recorded as a separate deliverable in the revenue transaction.

4. Significant accounting policies (continued)

d. Customer loyalty incentive programs (continued)

If the customer has the right to receive free or discounted goods and services and/or the option of receiving cash, a financial liability is recognized when the points are granted and a corresponding amount equal to the cash value is recorded as a reduction to revenue. The customer's point balance will be forfeited if the customer does not earn additional points over the subsequent six- to 12-month period. If the points expire or are forfeited, the financial liability is derecognized.

For programs that provide customers the right to receive free or discounted goods and services, the revenue, as determined by the fair value of the undelivered goods and services related to the customer loyalty award, is deferred until the award is provided or expires.

e. Lottery prizes

The prize expense for lottery is recognized based on the predetermined prize structure for each game in the period revenue is recognized as described below:

- Prize expense for tickets sold to customers for lottery games, for which results are determined based on a draw, is recognized when the related draw occurs and is based on actual prize liability.
- Prize expense for INSTANT games is recognized when retailers make them available for sale to the public, as indicated by the retailers' activation of tickets, and is based on the predetermined prize structure.
- Prize expense for Sports wagering games is recognized when the last wagered event occurs and is based on actual prize liability.
- Prize expense for annuity-based top prizes is accrued as tickets are sold to customers and is based on the cost of the annuity purchased by the Corporation from a third party.

National Lotto games are administered by the Interprovincial Lottery Corporation and sold throughout Canada, while regional Lotto games are administered by the Corporation and sold only in Ontario. Unclaimed prizes on national Lotto games are returned to players through guaranteed jackpots and bonus draws. Unclaimed prizes on regional Lotto games are returned to the Province of Ontario through distributions to the province. Unclaimed regional Lotto game prizes are estimated based on a 12-month period average and are recorded as a reduction to the prize liability included in trade and other payables as well as a reduction to the prize expense.

f. Commissions and bonuses

Commissions and bonuses are recognized in the Consolidated Statements of Comprehensive Income in the period in which they are incurred.

(i) Lottery

Commissions paid to lottery retailers are based on revenue earned by OLG, ticket redemptions or sales of major prize-winning tickets. OLG recognizes the commission expenses as revenue is earned.

4. Significant accounting policies (continued)

f. Commissions and bonuses (continued)

(ii) cGaming

cGaming service providers receive a commission based on percentages of net win (gaming revenue net of prizes paid) or adjusted net win (net win after the payment of applicable marketing expenses), as defined in their respective agreements.

Charities and not-for-profit agencies receive a commission based on percentages of net win, adjusted net win or non-gaming revenue, as defined in their respective agreements.

(iii) Municipalities

Municipalities that host a Casino or Slots at Racetracks facility, including the City of Niagara Falls and the City of Windsor, receive a percentage of Electronic Games Revenue and Live Table Game Revenue as defined in the Municipal Contribution Agreements. OLG will continue to pay the obligations within these agreements after the sites transition to Service Providers.

Municipalities that host cGaming Centres receive a commission based on either a percentage of non-gaming revenue and net win or a percentage of adjusted net win, as defined in the cGaming Centre Municipality Agreements.

(iv) Mississaugas of Scugog Island First Nation (MSIFN)

As the host community of the Great Blue Heron Casino, MSIFN receives a Revenue Sharing Payment and Contribution Agreement Payment from slots and live table games as defined in their respective agreements. OLG continues to pay MSIFN related to these agreements after Great Blue Heron Casino transitioned to Ontario Gaming GTA Limited Partnership (OGGLP).

g. Cash and cash equivalents

Cash and cash equivalents include cash and liquid investments that have a term to maturity at the time of purchase of less than 90 days.

h. Restricted cash

Restricted cash consists of cash and liquid investments that have a term to maturity at the time of purchase of less than 90 days. Cash is restricted for the purposes of funding reserves and includes prize funds on deposit, horse racing program funds, unused proceeds received from term loans and funds held on behalf of Internet Gaming patrons.

i. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost, less an allowance for impairment. Trade and other receivables are due for settlement no more than 30 days from the date of recognition.

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4. Significant accounting policies (continued)

j. Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to complete the sale.

k. Financial instruments

(i) Non-derivative financial assets recognition

The Corporation has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables. The Corporation does not have available-for-sale or held-to-maturity financial assets.

The Corporation initially recognizes loans and receivables on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date on which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

(ii) Non-derivative financial asset measurement

Financial assets at fair value through profit or loss	Comprised of all cash and cash equivalents and restricted cash	A financial asset is classified at fair value through profit or loss if it is classified as held for trading or designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation’s documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized as incurred in the Consolidated Statement of Comprehensive Income. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in the Consolidated Statement of Comprehensive Income.
Loans and receivables	Comprised of trade and other receivables	Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

4. Significant accounting policies (continued)

k. Financial instruments (continued)

(iii) Non-derivative financial liabilities recognition

The Corporation has the following non-derivative financial liabilities: financial liabilities measured at amortized cost. The Corporation has no non-derivative liabilities classified at fair value through profit or loss.

The Corporation initially recognizes financial liabilities on the date that they originated.

All other financial liabilities (designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. Any transaction costs that are directly attributable to these financial liabilities are expensed as incurred.

The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or have expired.

(iv) Non-derivative financial liabilities measurement

Financial liabilities at amortized cost	Comprised of Trade and other payables, Provisions, Due to operators and Service Providers, Due to Rama First Nation, Due to the Government of Canada and Long-term debt	Non-derivative financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(v) Non-derivative financial assets and liabilities offsetting

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

l. Property, plant and equipment

(i) Recognition and measurement

The Corporation capitalizes any major capital purchase that has a useful life beyond the current year.

Property, plant and equipment are measured at cost less accumulated amortization and accumulated impairment losses.

Cost includes an expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and other costs directly attributable to bring the assets to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs on qualifying assets. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

4. Significant accounting policies (continued)

l. Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within (Gains) losses on disposal of property, plant and equipment in the Consolidated Statements of Comprehensive Income.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property, plant and equipment is recognized as incurred in the Consolidated Statements of Comprehensive Income.

(iii) Amortization

Amortization is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in the Consolidated Statements of Comprehensive Income on a straight-line basis over the estimated useful life of each component of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are amortized over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the term of the lease.

The estimated useful lives for the current and comparative periods are as follows:

Asset	**Rate**
Buildings	10 to 50 years
Furniture, fixtures and equipment	2 to 10 years
Leasehold improvements	Lesser of useful life or term of lease
Lottery gaming assets	5 to 7 years
OLG owned Land-based Gaming assets	2 to 10 years

Property, plant and equipment are amortized when ready for their intended use. Construction in progress and assets not in use are stated at cost, less any recognized impairment loss. Amortization of these assets, determined on the same basis as other property assets, commences when the assets are ready for their intended use.

Amortization methods, useful lives and residual values are reviewed at each fiscal year end and adjusted if appropriate.

4. Significant accounting policies (continued)

l. Property, plant and equipment (continued)

(iii) Amortization (continued)

Borrowing costs incurred during the construction and development of qualifying property, plant and equipment are capitalized and amortized over the estimated useful life of the associated property, plant and equipment.

m. Disposal group held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through a sale rather than continuing use. Such assets, or disposal groups, are measured at the lower of the carrying amount or fair value less costs to sell. Any impairment loss on a disposal group is allocated among the related assets and liabilities on a pro rata basis, except that no loss is allocated to inventories and financial assets that continue to be measured in accordance with the Corporation's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the Consolidated Statements of Comprehensive Income. Once classified as held for sale, property, plant and equipment are no longer amortized.

n. Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Corporation considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss related to a financial asset measured at amortized cost is calculated as the difference between the excess carrying amount of the asset and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the Consolidated Statements of Comprehensive Income and reflected in an impairment allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in the Consolidated Statements of Comprehensive Income.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at the same time.

4. Significant accounting policies (continued)

n. Impairment (continued)

(ii) Non-financial assets (continued)

The recoverable amount of an asset or Cash Generating Unit (CGU) is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets. For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset is allocated.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in Other in the Consolidated Statements of Comprehensive Income. Impairment losses recognized in respect of CGUs are first allocated to reduce the carrying amount of any goodwill allocated to the units and then to reduce, on a pro rata basis, the carrying amounts of the other assets in the unit or group of units.

An impairment loss in respect of goodwill is not reversed. For all other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

o. Leases

At the inception of an arrangement, the Corporation determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the Corporation has the right to control the use of the underlying asset.

At the inception or upon the reassessment of the arrangement, the Corporation separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Corporation concludes that it is impracticable to separate the payments reliably under a finance lease, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Corporation's incremental borrowing rate.

4. Significant accounting policies (continued)

o. Leases (continued)

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. On a lease-by-lease basis, the Corporation estimates whether substantially all the risks and rewards of ownership are assumed, considering the length of the lease, the present value of the minimum lease payments compared to the fair value of the leased asset and other terms contained within the lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the Finance cost and the reduction of the outstanding liability. The Finance cost is allocated to each period during the term of the lease to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases other than finance leases are classified as operating leases and are not recognized in the Corporation’s Consolidated Statements of Financial Position. Operating lease payments are recognized as an expense on a straight-line basis over the term of the lease, except when another systematic basis is more representative of the pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

p. Deferred revenue

Funds collected for lottery games for which results are determined based on a draw, and for which tickets are sold in advance of the game draw, are recorded as deferred revenue and recognized as revenue once the related draw occurs. Also included is prepaid consideration received from Gaming Bundle sale transactions related to OLG’s future share of gaming revenue which is recognized on a straight-line basis over the duration of the agreement.

q. Trade and other payables

These amounts represent liabilities for unpaid goods and services provided to the Corporation prior to the end of the financial year. Such liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at their amortized cost using the effective interest method. The amounts are short term in nature.

r. Provisions

Provisions are liabilities of uncertain timing and amount. A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a Finance cost.

Provisions are reviewed at each reporting date and adjusted to reflect current best estimates.

4. Significant accounting policies (continued)

s. Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Consolidated Statements of Comprehensive Income in the periods during which services are rendered by the employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan, which are due more than 12 months after the end of the period in which the employees render the service, are discounted to their present value.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan that requires entities to record their net obligation in respect of the plan and is not a defined contribution plan. The Corporation provides defined benefit pension plans through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees Union (OPSEU) Pension Fund. The Corporation does not have a net obligation in respect of the defined benefit pension plans as the plans are sole-sponsored defined benefit plans established by the Province of Ontario. The Province of Ontario controls all entities included in the pension plans. The Corporation has classified these plans as state plans as there is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the Corporation. As such, the Corporation records these post-employment benefits as a defined contribution plan.

(iii) Other long-term employee benefits

The Corporation's net obligation with respect to long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Corporation's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in the Consolidated Statements of Comprehensive Income in the period in which they arise.

(iv) Termination benefits

Termination benefits are recognized as an expense at the earlier of when the Corporation can no longer withdraw the offer of those benefits and when the Corporation recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, they are discounted to their present value.

(v) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability and expense are recognized for the amount expected to be settled wholly within 12 months of the end of the reporting period if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

4. Significant accounting policies (continued)

t. Finance income and Finance costs

Finance income consists of interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss, loans and receivables and net foreign currency transaction gains. Interest income is recognized as it accrues in the Consolidated Statements of Comprehensive Income using the effective interest method.

Finance costs consist of interest expense on borrowings, unwinding of the discount on provisions, interest on finance leases and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the Consolidated Statements of Comprehensive Income using the effective interest method.

u. Income taxes

As the Corporation is an agent of the Crown, it is not subject to federal or provincial corporate income taxes or corporate capital taxes.

v. Consolidated statements of comprehensive income presentation

Direct expenses are costs that are directly associated with current fiscal gaming or non-gaming revenue and vary as revenue changes. Indirect expenses are costs that do not directly vary with current fiscal revenue levels. Contribution margin is total gaming and non-gaming revenue net of direct expenses.

w. Initial application of standards, interpretation and amendments

The Corporation did not adopt any new or amended accounting pronouncements that had a material impact on the Consolidated Financial Statements.

x. Accounting standards issued but not yet adopted

The IASB has issued the following new standards that will become effective in a future year and will have an impact on the Corporation's financial statements in a future period.

(i) IFRS 15, Revenue from Contracts with Customers (IFRS 15)

On May 28, 2014, the IASB issued IFRS 15. Since that time, the IASB issued substantive amendments to the new standard, deferring the effective date for annual periods beginning on or after January 1, 2018. Earlier application was permitted. The revised standard features a five-step model that will apply to revenue earned from a contract with a customer, with limited exceptions, regardless of the type of revenue transaction or the industry. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Corporation intends to adopt IFRS 15 in its Consolidated Financial Statements for the annual period beginning on April 1, 2018 on a full retrospective basis. The Corporation is continuing to assess the impact of this standard on the Consolidated Financial Statements but expects it to primarily impact how lottery revenue is presented as prize expense will be netted off revenue.

4. Significant accounting policies (continued)

x. Accounting standards issued but not yet adopted (continued)

(ii) IFRS 9, Financial Instruments (IFRS 9)

In July 2014, the IASB issued IFRS 9 which supersedes IAS 39, Financial Instruments: Recognition and Measurement. The new standard includes revised guidance on the classification and measurement of financial instruments including the introduction of a new expected credit loss model for calculating impairment on financial assets and general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments under IAS 39. The Company will adopt IFRS 9 in its financial statements for the annual period beginning on April 1, 2018. The Corporation does not anticipate any material impact of this standard on its Consolidated Financial Statements.

(iii) IFRS 16, Leases (IFRS 16)

In January 2016, the IASB issued the final publication of the IFRS 16 standard, which will supersede the current IAS 17, Leases (IAS 17) standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model and for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on April 1, 2019. The Corporation is assessing the impact of this new standard on its Consolidated Financial Statements.

5. Capital risk management

The capital structure of the Corporation consists of cash and cash equivalents, long-term debt and equity, comprised of retained earnings, contributed surplus and reserves.

The Corporation is required to finance certain capital expenditures with debt obtained from the Ontario Financing Authority (OFA). The approval of the Minister of Finance is required for the Corporation to borrow funds for major capital expenditures.

The Corporation’s objectives in managing capital are to ensure sufficient resources are available to fund future development and growth of its operations and to provide returns to the Province of Ontario.

The Board of Directors is responsible for the oversight of Management, including policies related to financial and risk management. The Corporation manages its capital structure and adjusts to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Operating agreements require the Resort Casinos to establish reserve funds. The Corporation is not subject to any externally imposed capital requirements. Refer to Note 22 for further details on the Corporation’s financial risk management and financial instruments.

(tabular amounts in thousands of Canadian dollars)

6. Restricted cash

Restricted cash, consisting of the following items and respective amounts, is held in separate bank accounts.

	March 31, 2018	March 31, 2017
Current		
Prize funds on deposit (a)	$ 54,996	$ 50,135
Horse racing funds (b)	2,370	4,034
Other (c)	2,589	7,955
	$ 59,955	$ 62,124
Non-current		
Reserves (d)		
Capital renewals	16,100	19,267
Operating	56,749	55,516
Severance	47,054	46,518
	$ 119,903	$ 121,301
Restricted cash	$ 179,858	$ 183,425

a. Prize funds on deposit of $54,996,000 (March 31, 2017 – $50,135,000) are funds set aside for the estimated gross prizes outstanding of $92,918,000 (March 31, 2017 – $86,221,000) less an estimate for prizes not expected to be claimed by customers of $37,922,000 (March 31, 2017 – $36,086,000).

b. In the Corporation's role as administrator of the Horse Racing Partnership Funding Program (Note 24.e), at March 31, 2018 $2,370,000 (March 31, 2017 – $4,034,000) were yet to be distributed.

c. Other restricted cash represents loan proceeds for the Gaming Management System project, funds held on behalf of Internet Gaming patrons and interest earned and received on Ontario Financing Authority loans.

d. The Corporation has established reserves at the Resort Casinos in accordance with their respective operating agreement for the following purposes:

(i) Capital renewals reserves – for property, plant and equipment additions, other than normal repairs, and to satisfy specified obligations if cash flows are insufficient to meet such obligations.

(ii) Operating reserves – to satisfy specified operating obligations if cash flows are insufficient to meet such obligations.

(iii) Severance reserves – to satisfy certain obligations arising from the termination or layoff of employees of an operator in connection with the termination of an operator.

7. Trade and other receivables

	March 31, 2018	March 31, 2017
Trade receivables	$ 162,815	$ 144,412
Less: allowance for impairment	(6,310)	(5,019)
Trade receivables, net	156,505	139,393
Other receivables	53,053	11,538
Trade and other receivables	$ 209,558	$ 150,931

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7. Trade and other receivables (continued)

The Corporation's exposure to credit risks and impairment losses related to trade and other receivables is disclosed in Note 22.

8. Inventories

	March 31, 2018	March 31, 2017
Slot machine and table game parts	$ 1,846	$ 2,285
Lottery and charitable gaming tickets and paper	30,454	21,408
Security and surveillance parts	-	1,047
Food and beverage	2,227	2,690
Retail	1,093	941
Other	2,536	2,887
Inventories	$ 38,156	$ 31,258

Inventory costs, included in expenses, for the year ended March 31, 2018 were $118,161,000 (March 31, 2017 – $117,480,000). During fiscal 2017–18, the Corporation recorded $223,000 in inventory write-down reversals in expenses (fiscal 2016–17 – nil).

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9. Property, plant and equipment

Cost

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	OLG owned Land-based Gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at April 1, 2016	$ 137,061	$ 1,882,448	$ 625,426	$ 648,582	$ 83,829	$ 599,633	$ 71,253	$ 22,069	$ 4,070,301
Additions and assets put into use	-	7,576	20,911	7,317	11,690	60,857	2,252	10,508	121,111
Disposals and retirements	-	(1,090)	(24,960)	(10,820)	-	(41,383)	(417)	(529)	(79,199)
Transfers to held for sale (Note 10)	(7,410)	(118,382)	(46,162)	(32,517)	-	(64,469)	-	-	(268,940)
Balance at March 31, 2017	**$ 129,651**	**$ 1,770,552**	**$ 575,215**	**$ 612,562**	**$ 95,519**	**$ 554,638**	**$ 73,088**	**$ 32,048**	**$ 3,843,273**
Balance at April 1, 2017	$ 129,651	$ 1,770,552	$ 575,215	$ 612,562	$ 95,519	$ 554,638	$ 73,088	$ 32,048	$ 3,843,273
Additions and assets put into use	-	2,897	47,591	17,233	5,352	41,198	243,303	(8,387)	349,187
Disposals and retirements	-	(2,144)	(82,153)	(452,478)	(76)	(176,901)	-	-	(713,752)
Transfers to held for sale (Note 10)	-	-	(93,865)	(32,438)	-	(151,406)	-	-	(277,709)
Balance at March 31, 2018	**$ 129,651**	**$ 1,771,305**	**$ 446,788**	**$ 144,879**	**$ 100,795**	**$ 267,529**	**$ 316,391**	**$ 23,661**	**$ 3,200,999**

Ontario Lottery and Gaming Corporation

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9. Property, plant and equipment (continued)

Accumulated amortization and accumulated impairment losses

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	OLG owned Land-based Gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at April 1, 2016	$ 41,091	$ 1,135,138	$ 530,875	$ 553,467	$ 75,164	$ 461,818	$ 48,721	$ -	$ 2,846,274
Amortization for the period	-	36,638	35,416	20,522	3,118	54,098	2,705	-	152,497
Impairment loss	-	-	579	-	-	-	2,252	-	2,831
Disposal and retirements	-	(752)	(24,845)	(9,804)	-	(40,686)	(416)	-	(76,503)
Transfers to held for sale (Note 10)	-	(71,097)	(39,801)	(29,746)	-	(46,858)	-	-	(187,502)
Balance at March 31, 2017	**$ 41,091**	**$ 1,099,927**	**$ 502,224**	**$ 534,439**	**$ 78,282**	**$ 428,372**	**$ 53,262**	**$ -**	**$ 2,737,597**
Balance at April 1, 2017	$ 41,091	$ 1,099,927	$ 502,224	$ 534,439	$ 78,282	$ 428,372	$ 53,262	$ -	$ 2,737,597
Amortization for the period	-	33,379	34,564	76,007	5,798	39,171	10,522	-	199,441
Impairment loss	-	-	976	-	-	-	-	-	976
Disposal and retirements	-	(1,193)	(75,228)	(446,951)	(2)	(140,990)	-	-	(664,364)
Transfers to held for sale (Note 10)	-	-	(76,866)	(32,033)	-	(112,731)	-	-	(221,630)
Balance at March 31, 2018	**$ 41,091**	**$ 1,132,113**	**$ 385,670**	**$ 131,462**	**$ 84,078**	**$ 213,822**	**$ 63,784**	**$ -**	**$ 2,052,020**

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9. Property, plant and equipment (continued)

Carrying amounts

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	OLG owned Land-based Gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at March 31, 2017	$ 88,560	$ 670,625	$ 72,991	$ 78,123	$ 17,237	$ 126,266	$ 19,826	$ 32,048	$ 1,105,676
Balance at March 31, 2018	**$ 88,560**	**$ 639,192**	**$ 61,118**	**$ 13,417**	**$ 16,717**	**$ 53,707**	**$ 252,607**	**$ 23,661**	**$ 1,148,979**

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9. Property, plant and equipment (continued)

The Corporation leases certain items of property, plant and equipment under finance lease agreements. At March 31, 2018, the net carrying amount of leased property, plant and equipment was $252,607,000 (March 31, 2017 – $19,826,000) (see Note 22.c).

Impairment

As a result of the economic performance of the cGaming Cash Generating Units (CGU)s, made up of the individual cGaming Centres, Management performed an impairment analysis.

The recoverable amounts of the CGUs were based on fair value less costs of disposal, which was greater than the value in use. Management performed the fair value analysis utilizing discounted cash flows based on its best estimates and using the market information currently available. The valuation technique used Level 3 inputs which are unobservable inputs supported by little or no market activity for the assets (Note 22.f). Cash flow projections were based on annual approved budgets and Management's projections thereafter. The cash flows are Management's best estimate of future events considering experience and future economic assumptions. A discount rate of 7.0 per cent that was applied to the cash flow projections was derived from Management's consideration of current market assessments and the risks specific to the CGUs.

Management determined that the recoverable amount of the CGUs of $nil was less than their carrying value and, as a result, an impairment loss of $976,000 (fiscal 2016–17 – $2,831,000) was recognized in Other in the Consolidated Statements of Comprehensive Income. The impairment loss relates to the cGaming line of business in Note 26.

Management did not identify any further impairment indicators at any of the Corporation's other CGUs and, therefore, has not recognized any additional impairment losses at March 31, 2018.

10. Disposal group held for sale

On December 18, 2017 and March 14, 2018, OLG signed TAPAs with Ontario Gaming West GTA Limited Partnership (OGWGLP) and Gateway Casinos & Entertainment Limited (Gateway) as the Service Providers for the West GTA and Central Gaming Bundles, respectively. Under the terms of the respective TAPAs, OLG committed to sell certain assets and OGWGLP and Gateway agreed to purchase such assets and assume certain liabilities related to the sites in the Bundles (Note 27).

Accordingly, at March 31, 2018, the assets and liabilities to be transferred under the West GTA and Central Gaming Bundles met the criteria to be classified as a disposal group held for sale and stated at their carrying values comprised of the following:

	March 31, 2018	March 31, 2017
Cash	$ 54,663	$ 29,458
Property, plant and equipment	56,079	81,438
Other	7,245	1,710
Assets held for sale	**$ 117,987**	**$ 112,606**
Trade payables and other	9,437	1,007
Liabilities held for sale	**$ 9,437**	**$ 1,007**

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10. Disposal group held for sale (continued)

On December 13, 2016, Gateway was announced as the Service Provider for the Southwest and North Gaming Bundles. As such, at March 31, 2017, the assets and liabilities to be transferred under the North and Southwest Gaming Bundles met the criteria to be classified as a disposal group held for sale. The sale of these Bundles was completed in fiscal 2017–18 (see Note 19) and resulted in a gain on disposal of $63,088,000.

11. Other asset

On September 8, 2016, the OLG entered into a lease agreement with Mississaugas of Scugog Island First Nation (MSIFN) for a term of 22 years plus a Stub Period, as defined therein, for the Great Blue Heron Casino premises. The lease agreement was considered a finance lease for accounting purposes. On January 23, 2018, the lease was part of certain assets acquired and liabilities assumed by Ontario Gaming GTA Limited Partnership (OGGLP) which resulted in the derecognition of the finance lease obligation and corresponding Other asset (Note 21.c). Prior to derecognition the amortization expense recognized during fiscal 2017─18 was $4,985,000 (fiscal 2016–17 – $3,460,000).

12. Trade and other payables

	March 31, 2018	March 31, 2017
Trade payables and accruals	$ 120,605	$ 103,263
Prizes payable	54,996	50,135
Short-term employee benefits	40,613	51,434
Gaming liability	74,618	72,851
Commissions payable	28,910	27,031
Horse racing liability	475	3,261
Due to Rama First Nation	1,809	2,500
Other payables and accruals	42,815	46,382
Trade and other payables	$ 364,841	$ 356,857

Prizes payable comprise unclaimed and estimated lottery prizes.

Short-term employee benefits include salaries payable, incentive accruals, long-term service awards, vacation pay accrual and other short-term employee-related liabilities.

Gaming liability includes progressive jackpots, unredeemed chips, customer loyalty incentive points and other gaming-related payables. Progressive jackpots are measured based on the anticipated payout of the progressive jackpots. Unredeemed chips are funds deposited by customers for chips before gaming play occurs where the chips remain in the customers' possession. Customer loyalty incentive points that are earned based on the volume of play and redeemable for complimentary goods and services and/or cash are recognized as a liability and measured at the amount payable on demand.

Commissions payable includes amounts payable to lottery retailers and cGaming Centre service providers, municipalities and First Nations that host a Casino, a cGaming Centre or a Slots at Racetracks facility, including the City of Niagara Falls and the City of Windsor.

Horse racing liability includes the funds related to the Horse Racing Partnership Funding Program yet to be distributed.

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12. Trade and other payables (continued)

Due to Rama First Nation includes the variable portion of the annual fee related to the Amended and Restated Post-2011 Contract and services for fire protection, police protection and other community services relating to Casino Rama (Note 21.c).

Other payables and accruals include accrued win contribution, casino customer deposits, security deposits, corporate marketing, and other miscellaneous amounts.

The Corporation's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 22.

13. Provisions

All provisions are included in current liabilities. The carrying amount was:

	Legal claims	Other provisions	Total
Balance at April 1, 2017	$ 2,773	$ 4,011	$ 6,784
Increases and additional provisions	822	1,247	2,069
Amounts paid	(566)	(692)	(1,258)
Amounts reversed	(1,082)	(506)	(1,588)
Balance at March 31, 2018	$ 1,947	$ 4,060	$ 6,007

Legal claims

During fiscal 2017─18, an additional $822,000 of potential legal claims were accrued, with an offsetting reduction of $566,000 in payments to claimants. The $1,082,000 of legal claims reversed in fiscal 2017─18 was due to the likelihood of the obligations becoming remote. The ultimate outcome or actual cost of settlement depends on the court proceedings and may vary significantly from the original estimates. Legal matters that have not been recognized as provisions, as the outcome is not probable or the amount cannot be reliably estimated, are disclosed as contingent liabilities, unless the likelihood of the outcome is remote (Note 25).

Other provisions

Other provisions include provisions for decommissioning obligations and minor claims managed by a third party.

The decommissioning provision is associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets. During fiscal 2017–18, an additional $100,000 of decommissioning obligations was accrued.

During fiscal 2017–18, an additional $1,147,000 of minor claims managed by a third party was accrued, $692,000 of which were settled and $506,000 were reversed as the likelihood was remote that the claims would be incurred.

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14. Finance income (cost)

	March 31, 2018	March 31, 2017
Interest income on financial assets at fair value through profit and loss and loans and receivables	$ 3,926	$ 2,163
Foreign exchange gain, net	7,072	8,771
Finance income	$ 10,998	$ 10,934
Interest on bank overdraft and loans	(426)	(381)
Interest on obligations under finance leases	(12,900)	(6,392)
Other interest expense	(2,697)	(2,657)
Total interest expense for financial liabilities not classified at fair value through profit and loss	(16,023)	(9,430)
Finance cost	$ (16,023)	$ (9,430)

15. Related parties

The Corporation is related to various other government agencies, ministries and Crown corporations. Related party transactions include loan agreements with the OFA (Note 21), post-employment benefit plans with the Ontario Pension Board (Note 23.b), other long-term employee benefits with the Workplace Safety and Insurance Board (Note 23.c) and restricted intermediary funding arrangements with the Province of Ontario related to horse racing (Note 6).

All transactions with these related parties are in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

Transactions with key management personnel

Key management personnel compensation

The Corporation's key management personnel, consisting of the Corporation's Board of Directors and certain Executive Committee members, have authority and responsibility for overseeing, planning, directing and controlling the activities of the Corporation.

Key management personnel compensation includes:

	March 31, 2018	March 31, 2017
Short-term employee benefits	$ 4,827	$ 3,944
Post-employment benefits	244	239
	$ 5,071	$ 4,183

Short-term employee benefits include salaries and benefits and other short-term compensation.

Post-employment benefits include the employer's portion of pension and other post-retirement benefits.

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16. Due to operators and Service Providers

	March 31, 2018	March 31, 2017
Due to operators (a)	$ 186,821	$ 186,511
Due to Service Providers (b)	55,836	7,180
	242,657	193,691
Less: current portion	94,427	47,857
Non-Current Due to operators and Service Providers	$ 148,230	$ 145,834

a. Due to operators

Under the terms of the operating agreements for each of the Resort Casinos, each operator is entitled to receive an operator's fee calculated as a percentage of Gross Revenue and as a percentage of Net Operating Margin, both as defined in the related operating agreements. OLG also had an operating agreement with Great Blue Heron Gaming Company for the operations of Great Blue Heron Casino. This agreement was terminated on January 23, 2018 at which time an agreement with a new service provider became effective. The total amount accrued with respect to the operator's fees at March 31, 2018 was $37,264,000 (March 31, 2017 – $38,668,000). The Resort Casinos, including Great Blue Heron Casino and their respective operators, are as follows:

Site	Operator	Operating Agreement Term Expiration Date
Casino Niagara and Fallsview	Falls Management Group, L.P.	June 10, 2019
Casino Rama	CHC Casinos Canada Limited	July 18, 2018
Caesars Windsor	Caesars Entertainment Windsor Limited (CEWL)	July 31, 2020
Great Blue Heron Casino	Great Blue Heron Gaming Company	Terminated January 23, 2018

Also included in amounts Due to operators are:

i. Casino Niagara and Fallsview

During fiscal 2015–16, the Corporation incurred one-time operator non-extension costs of $159,259,000, including HST of $15,783,000, in relation to exercising its option to not extend the Permanent Casino Operating Agreement with Falls Management Group, L.P. The costs, which were discounted using a rate of 1.643 per cent, represented the present value of the future payments to be made on or before June 10, 2019. The future undiscounted payments comprise $151,143,000 to the operator and $16,626,000 to the Government of Canada. As at March 31, 2018, the non-current amount due to the operator was $148,230,000 (March 31, 2017 – $145,834,000) with payment due on or before June 10, 2019.

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16. Due to operators and Service Providers (continued)

a. Due to operators (continued)

i. Casino Niagara and Fallsview (continued)

Under the terms of the Permanent Casino Operating Agreement, in a Competitive Environment, as defined in the Permanent Casino Operating Agreement, the operator is entitled to receive additional operator services fees and an attractor fee. As a result, at March 31, 2018, the Corporation has included $1,000,000 (March 31, 2017 – $1,705,000) in due to operators and has a remaining commitment as at March 31, 2018 of $3,340,000.

ii. Caesars Windsor

Under the terms of the Caesars Trademark Licence Agreement related to the rebranding of Casino Windsor, the Corporation pays a licence fee calculated as a percentage of the Adjusted Gross Revenues, as defined, of Caesars Windsor. The Caesars Trademark Licence Agreement is with a parent company of CEWL and will terminate on July 31, 2020. As at March 31, 2018, the amount included in Due to operators in respect of the trademark licence agreement was $327,000 (March 31, 2017– $304,000).

As at March 31, 2018, the current and non-current amount due to operators was $186,821,000 (March 31, 2017 – $186,511,000).

At each of the Resort Casinos, the operator is the employer, either directly or indirectly, of the employees working at that facility. OLG also had an operating agreement with Great Blue Heron Gaming Company for the operations of Great Blue Heron Casino (GBHC). This agreement was terminated on January 23, 2018 at which time an agreement with a new service provider as detailed in Note 2 became effective. All payroll and payroll-related costs are charged to the Corporation monthly and expensed in the Corporation's Consolidated Statements of Comprehensive Income.

b. Due to Service Providers

Under the terms of their respective COSAs, each of the Service Providers is entitled to receive a share of the gaming revenue, as defined herein, generated at the Casinos and Slot facilities it operates. The amount due to Service Providers represents the Service Provider's accrued share of gaming revenue primarily comprising a fixed fee, variable fee (calculated as a percentage of gaming revenue above a set revenue threshold) and an amount for permitted capital expenditures. The table below sets out the sites operated by Service Providers and the term of each COSA as of March 31, 2018:

OLG Gaming Bundle	Service Provider	Operating Agreement Term Expiration
East	OGELP	March 31, 2036
Southwest	Gateway	March 31, 2037
North	Gateway	March 31, 2037
Ottawa	Hard Rock	March 31, 2037
Greater Toronto Area	OGGLP	March 31, 2040

17. Win contribution

The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from the Resort Casinos and the Great Blue Heron Casino in accordance with the Ontario Lottery and Gaming Corporation Act, 1999, which amounted to $312,929,000 for fiscal 2017–18 (fiscal 2016–17 – $289,707,000) and was recorded as a direct expense. The Corporation retains the responsibility to remit the contribution once a site is operated by a Service Provider.

18. Due to Government of Canada

As at March 31, 2018, the amount Due to the Government of Canada was $43,635,000 (March 31, 2017– $32,220,000), of which $16,305,000 (March 31, 2017 – $16,042,000) was included in the non-current amount Due to the Government of Canada related to the Falls Management Group, L.P. non-extension (Note 16). The recognition of this obligation requires Management to make certain estimates regarding the nature, timing and amounts associated with the Due to the Government of Canada.

a. Payments on behalf of the Province of Ontario

The provincial lottery corporations make payments to the Government of Canada under an agreement dated August 1979 between the provincial governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

b. Goods and Services Tax / Harmonized Sales Tax (GST/HST)

As a prescribed registrant, the Corporation makes GST/HST remittances to the Government of Canada pursuant to the Games of Chance (GST/HST) Regulations of the Excise Tax Act. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities.

The net tax attributable to non-gaming activities is calculated in the same way as it is for any other GST/HST registrant in Canada. The non-recoverable GST/HST payable to suppliers and the additional imputed tax payable to the Government of Canada on gaming-related expenses were recognized as payments to the Government of Canada.

The net tax attributable to gaming activities results in a 26 per cent tax burden on most taxable gaming expenditures incurred by the Corporation.

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19. Gains (losses) on disposal of property, plant and equipment

During fiscal 2017–18, the Corporation realized net gains on disposal of property, plant and equipment of $107,086,000 (net losses during fiscal 2016–17 of $2,593,000) which included gains associated with the sales of the four gaming bundles assets: North and Southwest ($63,088,000), Ottawa ($9,610,000) and GTA ($30,251,000) (see Note 2 and Note 4.c(iii) for the related long-term gaming revenue share model the Corporation and the Service Providers have entered into).

20. Other

	March 31, 2018	March 31, 2017
General and administration (a)	$ 194,592	$ 190,270
ATM fees	(33,055)	(40,201)
Impairment charge (b)	976	2,831
Miscellaneous income	(10,549)	(10,667)
Other	$ 151,964	$ 142,233

a. General and administration

General and administration expenses are primarily comprised of office supplies and consumables, legal and consulting fees, settlements, research and development, travel, telecommunication, information technology and other miscellaneous expenses.

b. Impairment charge

The Corporation recognized an impairment loss for the year ended March 31, 2018 of $976,000 (March 31, 2017 – $2,831,000) (Note 9).

21. Long-term debt

	March 31, 2018	March 31, 2017
Woodbine loan (a)	$ -	$ 5,069
Gaming Management System loan (b)	33,079	29,097
Obligations under finance leases (c)	273,822	187,458
	306,901	221,624
Less: current portion	(19,734)	(21,397)
Long-term debt	$ 287,167	$ 200,227

On June 1, 2012, the Province of Ontario amended the *Ontario Lottery and Gaming Corporation Act, 1999* to require the Corporation to finance certain capital expenditures with debt obtained from the OFA. The approval of the Minister of Finance is required for the Corporation to borrow funds for major capital expenditures.

a. Woodbine loan

In October 2010, the Corporation entered into a loan agreement with the OFA for purposes of financing the renovation and expansion of the slots facility at Woodbine Racetrack.

The loan balance of $33,802,000, plus interest, was repayable over five years in equal monthly payments of $597,222 until fiscal 2014–15 when the equal monthly payment changed to $514,690 due to a lump sum payment made in fiscal 2013–14. The loan bore interest at a rate of 2.320 per cent per annum and was unsecured. The remaining loan balance was repaid on January 8, 2018.

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21. Long-term debt (continued)

b. Gaming Management System loan

In July 2014, the Corporation entered into a loan agreement with the OFA, involving two facilities, to borrow an amount up to $35,200,000 to finance the implementation of its Gaming Management System. This system will replace infrastructure that tracks and records gaming activity and accounting, as well as data and security events, at all slot machines while operated by the Corporation. During fiscal 2017–18, the Corporation drew $3,400,000 (prior cumulative advances to March 31, 2017 – $28,700,000), on facility one bringing the total cumulative loan balance to $33,079,000 (March 31, 2017 – $29,097,000) inclusive of interest. Facility one was fully repaid with facility two. Facility two is repayable over five years in average semi-annual payments of $3,507,000. The loan bears interest and fees of 2.65 per cent per annum and is unsecured. The loan is due September 30, 2022.

c. Obligations under finance leases

Casino Niagara facility

Effective March 2010, the Corporation entered into an amending agreement for an additional 15-year term with Maple Leaf Entertainment Inc., Canadian Niagara Hotels Inc., 1032514 Ontario Limited and Greenberg International Inc. to lease the facility that houses Casino Niagara and to license the adjacent parking facilities. The amending agreement extends the term of the original lease and licence agreements by 15 years from March 10, 2010 to March 9, 2025. This agreement is a finance lease for accounting purposes and has an implicit interest rate of 8.5 per cent. The total remaining obligation under the finance lease was $30,453,000 at March 31, 2018 (March 31, 2017 – $33,412,000).

cGaming TapTix

The Corporation entered into a master services agreement on August 22, 2012 to lease TapTix, formerly known as Break Open Ticket (BOT) dispensers. This agreement is a finance lease for accounting purposes and has an implicit interest rate of 9.0 per cent. The total remaining obligation under the finance lease was $5,531,000 at March 31, 2018 (March 31, 2017 –$11,175,000).

Great Blue Heron Casino premises

Effective September 8, 2016, the Corporation entered into a lease agreement for 22 years plus a stub period, as defined, with the Mississaugas of Scugog Island First Nation (MSIFN) to lease the premises that situate the Great Blue Heron Casino. This agreement was a finance lease for accounting purposes with a discount rate of 2.75 per cent used to calculate the present value of future lease payments. On January 23, 2018, the finance lease with MSIFN was part of certain assets acquired and liabilities assumed by OGGLP which resulted in the derecognition of the finance lease obligation and corresponding other asset (Note 11). The total remaining obligation under the finance lease on March 31, 2018 is $nil (March 31, 2017 - $142,871,000).

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21. Long-term debt (continued)

c. Obligations under finance leases (continued)

Casino Rama complex

On July 17, 2009, and as amended and restated on June 13, 2017, OLG and Chippewas of Rama entered into an agreement relating to the continued conduct of the business of Casino Rama for the 20-year period commencing August 1, 2011 and possible future development (the "Post-2011 Contract"). The Post-2011 Contract continues until July 31, 2031, subject to earlier terminations or the exercise by OLG of two successive options to extend for periods of 10 and 5 years, respectively.

The lands used for the Complex are leased under a 30-year Ground Lease, which expires on January 31, 2047, from Her Majesty the Queen in Right of Canada by Casino Rama Inc., a wholly owned subsidiary of Chippewas of Rama. On June 13, 2017, OLG and Casino Rama Inc. entered into a new Complex Sublease, which aligns the term with the Post-2011 Contract and consolidates previous leases for office and warehouse space, land, other additional parking lands and the employee parking lot.

In addition to annual rent payments, the Complex Sublease and the Amended and Restated Post-2011 Contract entitles Rama First Nation to receive an annual fee from OLG for each successive 12-month period equal to the greater of 1.9 percent of the Gross Revenues of the Casino Rama Complex, as defined, and $5,500,000 adjusted annually based on the Consumer Price Index. For accounting purposes, the agreements were determined to contain a finance lease.

In calculating the present value of minimum lease payments, the $5,500,000 minimum gross revenue payment was considered in substance to be a payment of rent. A discount rate of 3.19 per cent was used and a term of 24 years.

The total remaining obligation under the finance lease as at March 31, 2018 is $237,838,000.

d. Payments over the next five years and thereafter

Payments related to long-term debt and obligations under finance leases that are expected to be made over the next five years and thereafter are approximated as follows:

As at March 31	Long-term debt	Obligations under finance leases		Total
	Repayments	Principal Repayments	Interest Payments	
2019	$ 6,574	$ 13,259	$ 10,543	$ 30,376
2020	9,596	12,719	9,809	32,124
2021	6,611	12,313	8,914	27,838
2022	6,787	12,333	8,523	27,643
2023	3,511	12,555	8,129	24,195
Thereafter	-	210,643	69,997	280,640
	$ 33,079	**$ 273,822**	**$ 115,915**	**$ 422,816**

22. Financial risk management and financial instruments

a. Overview

The Corporation has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about the Corporation's exposure to each of these risks and the Corporation's objectives, policies and processes for measuring and managing them.

b. Risk management framework

The Corporation has a formal Enterprise Risk Management Program, which is aligned with ISO 31000 and in conformity with the Ontario Public Service risk management guidance and requirements. This program supports the Corporation in the identification, assessment and management of risks.

The Board of Directors, through its Audit and Risk Management Committee (ARMC), provides oversight with respect to the identification and management of risk along with adherence to internal risk management policies and procedures. The ARMC was assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the ARMC.

The Corporation's financial risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities.

The Corporation, through its policies, training and management standards and procedures, aims to enable employees to understand risks, to exercise appropriate risk-taking and to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

c. Credit risk

Credit risk is the risk that the Corporation will suffer a financial loss due to a third party failing to meet its financial or contractual obligations to the Corporation. The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of trade and other receivables and liquid investments.

Trade and other receivables

Trade and other receivables include credit provided to retailers of lottery products, cGaming service providers and customers of Resort Casinos which meet the standards set by the AGCO. The Corporation performs initial credit or similar evaluations and maintains reserves for potential credit losses on accounts receivable balances. The carrying amount of these financial assets represents the maximum credit exposure.

The amounts disclosed in the Consolidated Statements of Financial Position are net of allowances for impairment, which consist of a specific provision that relates to individually significant exposures, estimated by Management based on experience and an assessment of the current economic environment. The Corporation establishes an allowance for impairment that represents its estimate of potential credit losses. Historically, the Corporation has not experienced any significant losses. As at March 31, 2018, the Corporation had an allowance for impairment of $6,310,000 (March 31, 2017 – $5,019,000), which represented approximately 3.0 per cent (March 31, 2017 – 3.2 per cent) of the Corporation's consolidated Trade and other receivables. The Corporation believes that its allowance for impairment is sufficient to reflect the related credit risk.

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22. Financial risk management and financial instruments (continued)

c. Credit risk (continued)

Liquid investments

The Corporation limits its exposure to credit risk by investing only in short-term debt securities with high credit ratings and minimal market risk. The Corporation has a formal policy for short-term investments that provides direction for Management to minimize risk. All investments held by the Corporation are low risk and have a term to maturity of less than 90 days. As a result, this risk is considered minimal.

d. Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Corporation currently settles its financial obligations using cash provided by operations. The Corporation has established reserves at the Resort Casinos in accordance with their respective operating agreements. In addition, all investments held by the Corporation are low risk and have a term to maturity of less than 90 days, further reducing liquidity risk.

The Corporation manages its liquidity risk by performing regular reviews of net income and cash flows from operations and continuously monitoring the forecast against future liquidity needs. Given the Corporation's line of business, which historically has generated positive cash flows, liquidity risk is considered minimal.

The undiscounted contractual maturities of the financial liabilities are as follows:

March 31, 2018	Carrying amount	Contractual cash flows	<1 year	1 - 2 years	3 - 5 years	> 5 years
Trade and other payables	$ 364,841	$ 364,841	$ 364,841	$ -	$ -	$ -
Provisions	6,007	6,007	6,007	-	-	-
Due to operators and Service Providers	242,657	245,570	94,427	151,143	-	-
Due to Government of Canada	43,635	43,956	27,330	16,626	-	-
Long-term debt, including obligations under finance leases	306,901	424,814	30,769	33,051	80,355	280,639
	$ 964,041	$ 1,085,188	$ 523,374	$ 200,820	$ 80,355	$ 280,639

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22. Financial risk management and financial instruments (continued)

d. Liquidity risk (continued)

March 31, 2017	Carrying amount	Contractual cash flows	<1 year	1 - 2 years	3 - 5 years	> 5 years
Trade and other payables	$ 356,857	$ 356,857	$ 356,857	$ -	$ -	$ -
Provisions	6,784	6,784	6,784	-	-	-
Due to operators and Service Providers	193,691	199,000	47,857	-	151,143	-
Due to Government of Canada	32,220	32,804	16,178	-	16,626	-
Long-term debt, including obligations under finance leases	221,624	290,605	29,564	22,903	61,499	176,639
	$ 811,176	$ 886,050	$ 457,240	$ 22,903	$ 229,268	$ 176,639

e. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, foreign currency risk and other market price risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Corporation has financial assets and liabilities that potentially expose it to interest rate risk.

The Corporation is subject to interest rate risk on its cash and cash equivalents, including short-term investments with maturity dates of less than 90 days and long-term debt.

At March 31, 2018, long-term debt consists of one loan agreement with the OFA and obligations under finance leases. The obligations under finance leases (Note 21.c) and the loan agreement have fixed interest rates for their entire terms. Each of the long-term debt instruments is currently subject to limited interest rate risk.

At March 31, 2018, the Corporation had cash and cash equivalents of $208,903,000 (March 31, 2017 – $307,224,000). The impact of fluctuations in interest rates is not significant and, accordingly, a sensitivity analysis of the impact of fluctuations in interest rates on net income has not been provided.

(ii) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation is exposed to foreign currency risk by settling certain obligations in foreign currencies, primarily in U.S. dollars (USD), and by holding bank accounts and investments in USD.

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22. Financial risk management and financial instruments (continued)

e. Market risk (continued)

(ii) Foreign currency risk (continued)

The majority of the Corporation's suppliers and customers are based in Canada and, therefore, transact in Canadian dollars (CAD). Some suppliers and customers are based outside of Canada. The suppliers located outside of Canada typically transact in USD. The Corporation's border properties attract U.S. players who are required to exchange their USD for CAD prior to play. The Corporation exchanges USD using the daily market exchange rate and utilizes both a 'buy' and 'sell' rate. The Corporation holds USD cash and bank accounts for the purposes of transacting in USD with customers, as well as paying its U.S. suppliers. The balances held in USD are closely monitored to ensure future USD requirements are met. The Corporation's net foreign exchange gain for the year ended March 31, 2018 was $7,072,000 (March 31, 2017 – $8,771,000).

The Corporation does not enter into financial instruments for trading or speculative purposes.

The Corporation's exposure to currency risk, based on the carrying amounts, was:

USD (balances shown in CAD equivalents)	**March 31, 2018**	**March 31, 2017**
Cash and cash equivalents	$ 24,246	$ 29,251
Trade and other payables	(4,463)	(4,667)
Obligations under finance leases	(5,531)	(11,175)
Net exposure	$ 14,252	$ 13,409

Sensitivity analysis

A 10 per cent increase in the value of the USD at March 31, 2018 would have increased net income by $1,425,000. A 10 per cent decrease in the value of the USD at March 31, 2018 would have decreased net income by $1,425,000. This analysis assumes that all other variables, including interest rates, remain constant.

(iii) Other market price risk

The Corporation offers sports-based lottery products in the marketplace. The Corporation manages risks associated with these products by

- setting odds for each event within a short time frame before the actual event
- establishing sales liability thresholds by sport
- providing credit management controls
- posting conditions and prize structure statements on OLG.ca
- limiting the aggregate amount of prizes that may be won on any given day for all sports-based products
- suppressing sales of any game at any time when liability risk is a concern.

f. Fair values measurement

Financial instruments are measured subsequent to initial recognition at fair value and grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The Corporation has determined the fair value of its financial instruments as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

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22. Financial risk management and financial instruments (continued)

f. Fair values measurement (continued)

The Corporation's financial instruments carried at fair value in the Consolidated Statements of Financial Position, which consist of cash and cash equivalents and restricted cash, are valued using quoted market prices that are included in Level 1.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices).

In the Consolidated Statements of Financial Position, the carrying amounts of Trade and other payables, current Due to operators and Service Providers, Due to Rama First Nation and Due to the Government of Canada approximate fair values because of the short-term nature of these financial instruments or because they are payable on demand.

Trade and other receivables are carried at amortized cost using the effective interest method.

The fair value of the Corporation's long-term debt, excluding obligations under finance leases, is not determinable given its related party nature, and there is no observable market for the Corporation's long-term debt. Obligations under finance leases and non-current due to operators and service provider and due to the Government of Canada are carried at amortized cost using the effective interest method which approximates fair value.

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

There were no financial statement categories in Level 3 (valuation techniques using non-observable data) for the years ended March 31, 2018 or March 31, 2017.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

23. Employee benefits

a. Defined contribution plans

The operators of the Resort Casinos have created defined contribution pension plans for their employees. OLG also had an operating agreement with Great Blue Heron Gaming Company for the operations of Great Blue Heron Casino up until January 23, 2018. The pension expense for Resorts and GBHC defined contribution plans for fiscal 2017–18 amounted to $22,093,000 (fiscal 2016–17 – $21,598,000).

Ontario Lottery and Gaming Corporation
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23. Employee benefits (continued)

b. Other post-employment benefit plans

The Corporation provides pension benefits for all its permanent employees and for non-permanent employees who elect to participate through the PSPF and the OPSEU Pension Fund, which are sole-sponsored defined benefit pension plans established by the Province of Ontario. The Province of Ontario controls all entities included in the PSPF and OPSEU Pension Fund. Contribution rates are set by the *Public Service Pension Act*, whereby the Corporation matches all regular contributions made by the member. The Corporation classified these plans as state plans whereby there is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the Corporation. As such, the Corporation accounts for these post-employment benefits as defined contribution plans and has recorded no additional liability for the plan deficit. The annual contributions made by the Corporation are recorded as an expense in the Consolidated Statements of Comprehensive Income. The Corporation's contribution and pension expense for fiscal 2017–18 was $15,634,000 (fiscal 2016–17 – $19,602,000).

c. Other long-term employee benefits

As a Schedule 2 employer under the *Workplace Safety and Insurance Act, 1997*, (the Act), the Corporation is individually responsible for the full cost of accident claims filed by its workers. The Workplace Safety and Insurance Board (WSIB) maintains full authority over the claims entitlement process and administers and processes claims payments on the Corporation's behalf. WSIB liabilities for self-insured employers are reported in the Consolidated Statements of Financial Position.

The WSIB accrual at March 31, 2018 was $17,944,000 (March 31, 2017 – $19,004,000), of which $16,190,000 (March 31, 2017 – $17,674,000) was included in non-current employee benefits liability and $1,754,000 (March 31, 2017 – $1,330,000) was included in Trade and other payables (Note 12). The accrued benefit costs are based on actuarial assumptions.

The operators of the Resort Casinos are Schedule 1 employers under the Act and are not subject to the financial reporting requirements of self-insured employers. Great Blue Heron Gaming Company, as operator of Great Blue Heron Casino, was also a Schedule 1 employer under the Act up until January 23, 2018.

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24. Commitments

	Obligations under operating leases (a)	HST on lease commitments (b)	Suppliers (c)
2019	$ 13,114	$ 24,465	$ 42,438
2020	5,918	20,963	-
2021	3,952	17,580	-
2022	1,273	14,379	-
2023	1,304	12,264	-
	25,561	89,651	42,438
Thereafter	7,470	187,299	-
	$ 33,031	$ 276,950	$ 42,438

a. Obligations under operating leases

The Corporation has several operating leases for facilities, property and equipment with a typical term of five to seven years. The future minimum lease payments are, approximated as summarized above.

b. HST on lease commitments

The Corporation and the Resort Casinos have entered into several agreements to lease property, plant and equipment from the Corporation's subsidiary and other external parties. The non-recoverable HST and the additional imputed tax on the gaming-related assets payable to the Government of Canada (Note 18.b) on the future lease payments are approximated as summarized above.

c. Suppliers

The Corporation has computer hardware maintenance agreements with future payments as at March 31, 2018. The future payments are approximated as summarized above.

d. Ontario First Nations (2008) Limited Partnership

On February 19, 2008, Her Majesty the Queen in Right of Ontario, the Corporation, the Ontario First Nations Limited Partnership and Ontario First Nations (2008) Limited Partnership entered into the Gaming Revenue Sharing and Financial Agreement (GRSFA). Pursuant to the terms of the GRSFA and an Order-in-Council, the Corporation was directed to pay the Ontario First Nations (2008) Limited Partnership, commencing in fiscal 2011–12 and in each fiscal year for the remainder thereafter of the 20-year term, an amount equal to 1.7 per cent of the prior year's Gross Revenues of the Corporation, as defined (Gaming Revenue Sharing Payment). Pursuant to the GRSFA, during fiscal 2017–18, $139,561,000 was expensed (fiscal 2016–17 – $137,349,000) as Gaming Revenue Sharing Payment.

e. Horse Racing Funding Agreement

Under the existing funding agreement effective for the current year and fiscal 2018–19, the Corporation will administer Transfer Payment Agreements the Province has in place with racetracks under the Horse Racing Partnership Funding Program by acting as a flow-through intermediary for the provincial funding. The Corporation will also continue to provide the industry with advice and support in areas including responsible gambling, marketing and performance management (Note 27.b).

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24. Commitments (continued)

f. Niagara Falls Entertainment Centre

In August 2017, OLG executed a lease agreement with Niagara Falls Entertainment Partners General Partnership (NFEP) requiring NFEP to design, construct, finance and subsequently maintain the Niagara Falls Entertainment Centre (NFEC) in Niagara Falls, Ontario. The construction is scheduled to be completed by June 2019 and the lease term of approximately 21 years will commence at that time. As at March 31, 2018, OLG has not made any payments under the lease agreement. The expected cumulative base rent payments to NFEP are estimated to be a minimum of $130,000,000 plus other costs, as defined, over the term of the lease. OLG intends to transfer the lease of the facility to the successful Niagara Bundle Service Provider but it will remain jointly liable for all obligations and covenants as tenant. At the expiration or termination of the lease term, OLG holds the option to purchase the land and building.

25. Contingencies

The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. In addition, as the Corporation continues to modernize and transition gaming sites to service providers, there is a risk of contingent liabilities being present for binding contracts that cannot be assigned to service providers. The Corporation believes that the outcome of these outstanding claims and contingencies will not have a material impact on its Consolidated Statements of Comprehensive Income or the possibility of an outflow of resources is not determinable. Estimates, where appropriate, have been included in the Consolidated Statements of Financial Position (Note 13); however, additional settlements, if any, concerning these contingencies will be accounted for as a charge in the Consolidated Statements of Comprehensive Income in the period in which the settlement occurs.

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26. Other information

The Corporation has four lines of business and a Corporate Services division. The four lines of business are distinct revenue-generating business units that offer different products and services and are managed separately because they require different technologies and marketing strategies. The Corporate Services division provides support services to all revenue-generating lines of business. The following summary describes the operations in each line of business:

- **Lottery** derives its revenue from the sale of lottery products, which include Lotto, INSTANT and Sports products. Lotto products are also available for purchase over the Internet at PlayOLG.ca.

- **Charitable Gaming** (cGaming) derives its revenue from the sale of Charitable Gaming products.

- **Land-based Gaming** comprises:

    - **Slots and Casinos**, which are gaming facilities operated by OLG or a Service Provider. OLG Casinos, which included Great Blue Heron Casino up until January 23, 2018, offer slot and table games, as well as food and beverage services. OLG Slots are located at racetrack sites and include only slot games. Food and beverage services are also offered at the racetrack sites; however, at most of the locations, OLG is not the entity providing these services. At the Service Provider-operated sites, OLG receives a share of the gaming revenue generated. The non-gaming revenue is earned and retained by the Service Provider.

    - **Resort Casinos**, which are full-service casinos that offer customers a variety of amenities, including accommodations, entertainment and food and beverage services, in addition to slot and table games.

- **Internet Gaming** (iGaming) derives its revenue from casino-style games available over the Internet at PlayOLG.ca.

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26. Other information (continued)

March 31, 2018	Lottery	cGaming	Land-based Gaming	iGaming	Corporate Services	Total
Revenues						
Gaming	$ 3,779,738	$ 172,096	$ 3,431,077	$ 73,074	$ -	$7,455,985
Non-gaming	-	-	121,731	-	-	121,731
	3,779,738	**172,096**	**3,552,808**	**73,074**	**-**	**7,577,716**
Direct expenses						
Prizes	2,115,607	-	-	-	-	2,115,607
Commissions and fees	278,007	130,433	230,046	12,494	-	650,980
Win contribution (Note 17)	-	-	312,929	-	-	312,929
Food, beverage, and other purchases	-	-	103,074	-	-	103,074
Ticket printing	40,728	6,176	-	-	-	46,904
	2,434,342	**136,609**	**646,049**	**12,494**	**-**	**3,229,494**
Contribution margin	**1,345,396**	**35,487**	**2,906,759**	**60,580**	**-**	**4,348,222**
Indirect expenses						
Personnel	35,505	2,837	688,613	4,024	124,815	855,794
Marketing and promotion	71,753	-	184,208	5,038	20,775	281,774
Amortization	7,764	-	190,059	153	6,450	204,426
Payments to the Government of Canada	110,095	17,187	184,363	5,552	24,412	341,609
Cost of premises and equipment	25,339	5,843	213,719	398	21,395	266,694
Regulatory fees	11,177	2,628	17,891	2,861	30	34,587
Gaming Revenue Sharing Payment	-	-	-	-	139,561	139,561
Net finance (income) costs	38	417	2,856	(2)	1,716	5,025
(Gains) losses on disposal of property, plant and equipment, net	16	-	(107,073)	-	(29)	(107,086)
Other	12,786	4,246	44,119	4,958	85,855	151,964
	274,473	**33,158**	**1,418,755**	**22,982**	**424,980**	**2,174,348**
Net income (loss)	**$ 1,070,923**	**$ 2,329**	**$ 1,488,004**	**$ 37,598**	**$ (424,980)**	**$ 2,173,874**
Add: Win contribution (Note 17)	-	-	312,929	-	-	312,929
Net Profit (loss) to the Province (a)	**$ 1,070,923**	**$ 2,329**	**$ 1,800,933**	**$ 37,598**	**$ (424,980)**	**$ 2,486,803**

(a) Net Profit to the Province (NPP) is the amount the Corporation returns to the Province of Ontario after stakeholder and other payments. NPP is calculated by adding back win contribution to net income (loss).

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26. Other information (continued)

March 31, 2017	Lottery	cGaming	Land-based Gaming	iGaming	Corporate Services	Total
Revenues						
Gaming	$ 3,680,753	$ 153,044	$ 3,460,338	$ 58,365	$ -	$ 7,352,500
Non-gaming	-	-	122,373	-	-	122,373
	3,680,753	**153,044**	**3,582,711**	**58,365**	**-**	**7,474,873**
Direct expenses						
Prizes	2,035,482	-	-	-	-	2,035,482
Commissions and fees	266,161	120,426	207,337	9,949	-	603,873
Win contribution (Note 17)	-	-	289,707	-	-	289,707
Food, beverage, and other purchases	-	-	104,252	-	-	104,252
Ticket printing	35,062	5,597	-	-	-	40,659
	2,336,705	**126,023**	**601,296**	**9,949**	**-**	**3,073,973**
Contribution margin	**1,344,048**	**27,021**	**2,981,415**	**48,416**	**-**	**4,400,900**
Indirect expenses						
Personnel	33,534	4,129	763,839	4,242	128,099	933,843
Marketing and promotion	63,064	235	195,595	3,613	24,271	286,778
Amortization	4,918	-	143,155	201	7,683	155,957
Payments to the Government of Canada	101,251	17,567	165,975	4,718	26,214	315,725
Cost of premises and equipment	24,710	4,780	265,605	398	20,127	315,620
Regulatory fees	11,974	2,597	22,433	4,099	-	41,103
Gaming Revenue Sharing Payment	-	-	-	-	137,349	137,349
Net finance (income) costs	38	1,402	(5,173)	(1)	2,230	(1,504)
(Gains) losses on disposal of property, plant and equipment, net	-	-	2,592	-	1	2,593
Other	23,119	6,922	43,918	3,768	64,506	142,233
	262,608	**37,632**	**1,597,939**	**21,038**	**410,480**	**2,329,697**
Net income (loss)	**$ 1,081,440**	**$ (10,611)**	**$ 1,383,476**	**$ 27,378**	**$ (410,480)**	**$ 2,071,203**
Add: Win contribution (Note 17)	-	-	289,707	-	-	289,707
Net Profit (loss) to the Province (a)	**$ 1,081,440**	**$ (10,611)**	**$ 1,673,183**	**$ 27,378**	**$ (410,480)**	**$ 2,360,910**

(a) Net Profit to the Province (NPP) is the amount the Corporation returns to the Province of Ontario after stakeholder and other payments. NPP is calculated by adding back win contribution to net income (loss).

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27. Subsequent events

a) On May 1, 2018, OLG and OGWGLP entered into a 20-year COSA for the West GTA Gaming Bundle and a 20-year lease agreement for the Brantford land and building. OGWGLP purchased the assets of the Gaming Bundle for $62,221,000, which included an estimate for working capital of $26,520,000, resulting in a gain on sale of assets of $16,776,000 and assumed day-to-day operations of the sites in the Gaming Bundle from OLG. In addition to the gain on sale of assets, OLG will recognize its share of gaming revenue over the duration of the COSA. OGWGLP is entitled to receive a share of the gaming revenue, as defined in the COSA, generated at the Casinos and Slot facilities it operates in the Gaming Bundle. The share of revenue owed to OGWGLP primarily reflects the fixed fee, a variable fee (calculated as a percentage of gaming revenue above a set revenue threshold) and an amount for permitted capital expenditures. On the sale date, OLG derecognized all held for sale assets and liabilities – including property, plant and equipment – related to the sites in the West GTA Gaming Bundle. As part of the lease agreement, OGWGLP made an upfront lease payment of $60,900,000 for use of the land and building where Casino Brantford resides. OLG is obligated to pay OGWGLP the fair market value of the Brantford land and building at the lease expiry or termination date. The termination date is at the discretion of OGWGLP, which has the option to terminate the lease by providing six months notice.

b) On May 7, 2018, the Corporation and the Ontario government executed a long-term funding arrangement for Ontario's horse racing industry. Starting April 1, 2019, the Corporation will directly fund the long-term agreement, which will provide the industry with up to $105,000,000 each year for 19 years. In addition, starting in fiscal 2018–19, the Corporation will contribute $3,000,000 annually as part of the three-year transitional funding support of purses and operating costs for grassroots and signature-level racetracks (Note 24.e).

c) On June 15, 2018, OLG entered into an agreement to purchase approximately 11,000 new lottery terminals and the related network and support services. The new lottery terminals, expected to be installed in fiscal 2019–20, will replace existing terminals located at retail locations throughout Ontario, enabling the sale and checking of lottery tickets. Upon signing the agreement, OLG is expected to incur approximately $61,400,000 in capital costs plus additional amounts for service fees. OLG has obtained approval from the OFA to borrow up to a maximum $85,700,000 for this capital project.

28. Comparative figures

Certain comparative figures have been reclassified, where necessary, to reflect the current year's presentation.

ONTARIOPOWER GENERATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Ontario Power Generation Inc.'s (OPG) management is responsible for the presentation and preparation of the annual consolidated financial statements and Management's Discussion and Analysis (MD&A).

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (US GAAP). The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators and its related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. Something is considered material if it is reasonably expected to have a significant impact on the Company's earnings, cash flow, value of an asset or liability, or reputation. In addition, in preparing the financial information, we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect the reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, and risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the reliability of the financial information, we maintain and rely on a comprehensive system of internal controls and internal audits, including organizational and procedural controls and internal controls over financial reporting. Our system of internal controls includes: written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and accounting policies, which we regularly update. This structure ensures appropriate internal controls over transactions, assets and records. We also regularly test internal controls. These controls and testing are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

Management, including the President and Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), is responsible for maintaining disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICOFR). DC&P is designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. ICOFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with US GAAP.

An evaluation of the effectiveness of the design and operation of OPG's DC&P and ICOFR was conducted as of December 31, 2017. Accordingly, we, as OPG's President and CEO and CFO, will certify OPG's annual disclosure documents filed with the Ontario Securities Commission, which includes attesting to the design and effectiveness of OPG's DC&P and ICOFR.

The Board of Directors, based on recommendations from its Audit and Risk Committee, reviews and approves the consolidated financial statements and the MD&A, and oversees management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major areas of financial risk, and assessment of significant and related party transactions.

The consolidated financial statements have been audited by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The Independent Auditors' Report outlines the auditors' responsibilities and the scope of their examination and their opinion on OPG's consolidated financial statements. The independent external auditors, as confirmed by the Audit and Risk Committee, had direct and full access to the Audit and Risk Committee, with and without the presence of management, to discuss their audit and their findings therefrom, as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

Jeff Lyash
President and Chief Executive Officer

Ken Hartwick
Chief Financial Officer and Senior Vice President – Finance

March 8, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Ontario Power Generation Inc.

We have audited the accompanying consolidated financial statements of Ontario Power Generation Inc., which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income, comprehensive income, cash flows and changes in shareholder's equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with United States generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with United States generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada

March 8, 2018

Ernst & Young LLP

Chartered Professional Accountants,
Licensed Public Accountants

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31 *(millions of dollars except where noted)*	**2017**	**2016**
Revenue	**5,158**	5,653
Fuel expense	**689**	727
Gross margin	**4,469**	4,926
Operations, maintenance and administration	**2,824**	2,747
Depreciation and amortization *(Note 4)*	**679**	1,257
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 8)*	**960**	929
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(801)**	(746)
Earnings from Fair Hydro Trust *(Note 17)*	**(1)**	-
Income from investments subject to significant influence	**(38)**	(37)
Property taxes	**40**	46
Restructuring	**-**	6
	3,663	4,202
Income before other gains, interest and income taxes	**806**	724
Other gains *(Note 4)*	**379**	17
Income before interest and income taxes	**1,185**	741
Net interest expense *(Note 6)*	**95**	120
Income before income taxes	**1,090**	621
Income tax expense *(Note 9)*	**209**	168
Net income	**881**	453
Net income attributable to the Shareholder	**860**	436
Net income attributable to non-controlling interest	**21**	17
Basic and diluted earnings per share *(dollars) (Note 15)*	**3.35**	1.70

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31 *(millions of dollars)*	**2017**	**2016**
Net income	**881**	453
Other comprehensive (loss) income, net of income taxes *(Note 10)*		
Actuarial loss on remeasurement of liabilities for pension and other post-employment benefits [1]	**(23)**	(6)
Reclassification to income of amounts related to pension and other post-employment benefits [2]	**10**	12
Reclassification to income of losses on derivatives designated as cash flow hedges [3]	**18**	19
Unrealized loss on available-for-sale securities [4]	**(8)**	(1)
Other comprehensive (loss) income for the year	**(3)**	24
Comprehensive income	**878**	477
Comprehensive income attributable to the Shareholder	**857**	460
Comprehensive income attributable to non-controlling interest	**21**	17

[1] Net of income tax recovery of $7 million and $2 million for 2017 and 2016, respectively.

[2] Net of income tax expenses of $3 million and $4 million for 2017 and 2016, respectively.

[3] Net of income tax expenses of $2 million for each of 2017 and 2016.

[4] Net of income tax recovery of $2 million and nil for 2017 and 2016, respectively.

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 *(millions of dollars)*	**2017**	**2016**
Operating activities		
Net income	**881**	453
Adjust for non-cash items:		
Depreciation and amortization *(Note 4)*	**679**	1,257
Accretion on fixed asset removal and nuclear waste management liabilities	**960**	929
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(801)**	(746)
Pension and other post-employment benefit costs *(Note 11)*	**412**	464
Deferred income taxes	**19**	(36)
Mark-to-market on derivative instruments *(Note 12)*	**(3)**	3
Provision for used nuclear fuel and low and intermediate level nuclear waste	**116**	118
Regulatory assets and liabilities	**(558)**	(170)
Provision for materials and supplies	**33**	42
Other gains	**(371)**	-
Other	**1**	(25)
	1,368	2,289
Contributions to nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**-**	(150)
Expenditures on fixed asset removal and nuclear waste management	**(313)**	(275)
Reimbursement of eligible expenditures on nuclear fixed asset removal and nuclear waste management	**79**	70
Contributions to pension funds and expenditures on other post-employment benefits and supplementary pension plans	**(322)**	(363)
Expenditures on restructuring	**(4)**	(6)
Distributions received from investments subject to significant influence	**50**	52
Net changes to other long-term assets and liabilities	**32**	20
Net changes to non-cash working capital balances *(Note 18)*	**54**	180
Cash flow provided by operating activities	**944**	1,817
Investing activities		
Acquisition of Fair Hydro Trust financing receivables *(Note 19)*	**(1,179)**	-
Purchase of available-for-sale securities	**-**	(213)
Proceeds from deposit note	**70**	110
Net proceeds from sale of property, plant and equipment	**484**	-
Investment in property, plant and equipment and intangible assets	**(1,853)**	(1,816)
Cash flow used in investing activities	**(2,478)**	(1,919)
Financing activities		
Issuance of Class A shares *(Note 14)*	**519**	-
Issuance of OPG long-term debt *(Note 6)*	**1,301**	334
Repayment of OPG long-term debt	**(1,103)**	(273)
Issuance of Fair Hydro Trust long-term debt *(Note 6)*	**601**	-
Distribution to non-controlling interest	**(15)**	(14)
Capital contribution from non-controlling interest	**19**	-
Issuance of short-term debt	**1,960**	3,108
Repayment of short-term debt	**(1,700)**	(3,331)
Cash flow provided by (used in) financing activities	**1,582**	(176)
Net increase (decrease) in cash and cash equivalents	**48**	(278)
Cash and cash equivalents, beginning of year	**186**	464
Cash and cash equivalents, end of year	**234**	186

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2017**	**2016**
Assets		
Current assets		
Cash and cash equivalents [1]	**234**	186
Available-for-sale securities	**188**	212
Receivables from related parties *(Note 19)*	**369**	429
Nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**23**	24
Fuel inventory	**309**	310
Materials and supplies	**103**	100
Prepaid expenses	**192**	198
Other current assets	**146**	298
	1,564	1,757
Property, plant and equipment *(Note 4)*	**29,950**	29,315
Less: accumulated depreciation	**8,628**	9,317
	21,322	19,998
Intangible assets *(Note 4)*	**565**	503
Less: accumulated amortization	**432**	404
	133	99
Other assets		
Nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**16,701**	15,960
Financing receivables *(Note 19)*	**1,179**	-
Long-term materials and supplies	**355**	345
Regulatory assets *(Note 5)*	**7,231**	5,855
Investments subject to significant influence *(Note 20)*	**309**	321
Other long-term assets	**28**	37
	25,803	22,518
	48,822	44,372

[1] Includes $4 million restricted for Fair Hydro Trust purposes as at December 31, 2017 (December 31, 2016 – nil).

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2017**	**2016**
Liabilities		
Current liabilities		
Accounts payable and accrued charges	**1,228**	1,164
Short-term debt *(Note 7)*	**260**	2
Deferred revenue due within one year	**12**	12
Long-term debt due within one year *(Note 6)*	**398**	1,103
Income taxes payable	**80**	123
	1,978	2,404
Long-term debt *(Note 6)*	**5,921**	4,417
Other liabilities		
Fixed asset removal and nuclear waste management liabilities *(Note 8)*	**20,421**	19,484
Pension liabilities *(Note 11)*	**3,423**	3,012
Other post-employment benefit liabilities *(Note 11)*	**3,092**	2,897
Long-term accounts payable and accrued charges	**252**	213
Deferred revenue	**351**	298
Deferred income taxes *(Note 9)*	**879**	829
Regulatory liabilities *(Note 5)*	**594**	310
	29,012	27,043
Equity		
Common shares [1] *(Note 14)*	**5,126**	5,126
Class A shares [2] *(Note 14)*	**519**	-
Retained earnings	**6,396**	5,534
Accumulated other comprehensive loss *(Note 10)*	**(295)**	(295)
Equity attributable to the Shareholder	**11,746**	10,365
Equity attributable to non-controlling interest *(Note 22)*	**165**	143
Total equity	**11,911**	10,508
	48,822	44,372

[1] 256,300,010 common shares outstanding at a stated value of $5,126 million as at December 31, 2017 and December 31, 2016.
[2] 12,217,616 Class A shares outstanding at a stated value of $519 million as at December 31, 2017 (December 31, 2016 − nil).

Commitments and Contingencies *(Notes 6, 9, 11 and 16)*

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Bernard Lord (signed)
Board Chair

M. George Lewis (signed)
Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years Ended December 31 *(millions of dollars)*	**2017**	**2016**
Common shares *(Note 14)*	**5,126**	5,126
Class A shares *(Note 14)*		
Balance at beginning of year	**-**	-
Issuance of Class A shares	**519**	-
Balance at end of year	**519**	-
Retained earnings		
Balance at beginning of year	**5,534**	5,098
Net income attributable to the Shareholder	**860**	436
Reclassification of non-controlling interest on change in ownership interest *(Note 22)*	**2**	-
Balance at end of year	**6,396**	5,534
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of year	**(295)**	(319)
Other comprehensive (loss) income	**(3)**	24
Reclassification of non-controlling interest on change in ownership interest *(Note 22)*	**3**	-
Balance at end of year	**(295)**	(295)
Equity attributable to the Shareholder	**11,746**	10,365
Equity attributable to non-controlling interest		
Balance at beginning of year	**143**	140
Equity contribution from non-controlling interest *(Note 22)*	**21**	-
Reclassification of non-controlling interest on change in ownership interest *(Note 22)*	**(5)**	-
Distribution to non-controlling interest	**(15)**	(14)
Income attributable to non-controlling interest	**21**	17
Balance at end of year	**165**	143
Total equity	**11,911**	10,508

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

1. DESCRIPTION OF BUSINESS

Ontario Power Generation Inc. (OPG or the Company) was incorporated on December 1, 1998 pursuant to the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the Province or the Shareholder). OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP).

As required by *Ontario Regulation 395/11,* as amended, under the *Financial Administration Act* (Ontario), OPG adopted US GAAP for the presentation of its consolidated financial statements, effective January 1, 2012. Since January 1, 2012, OPG also has received exemptive relief from the Ontario Securities Commission (OSC) from the requirements of section 3.2 of National Instrument 52-107, *Acceptable Accounting Policies and Auditing Standards*. The exemption allows OPG to file consolidated financial statements based on US GAAP, rather than International Financial Reporting Standards (IFRS), without becoming a US Securities and Exchange Commission registrant.

The current OSC exemption, received in 2014, will terminate on the earliest of the following:

- January 1, 2019
- The financial year that commences after OPG ceases to have activities subject to rate regulation
- The effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within IFRS specific to entities with rate regulated activities.

The Company is in the process of applying for a further extension of this exemptive relief beyond January 1, 2019.

All dollar amounts are presented in Canadian dollars, unless otherwise noted. Certain 2016 comparative amounts have been reclassified from financial statements previously presented to conform to the 2017 consolidated financial statement presentation.

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Consolidation

The consolidated financial statements of the Company include the accounts of OPG and its majority-owned subsidiaries, and variable interest entities (VIEs) where OPG is the primary beneficiary. All significant intercompany balances and intercompany transactions have been eliminated on consolidation.

Where OPG does not control an investment, but has significant influence over operating and financing policies of the investee, the investment is accounted for under the equity method. OPG co-owns the Portlands Energy Centre (PEC) gas-fired combined cycle generating station (GS) with TransCanada Energy Ltd. and co-owns the Brighton Beach gas-fired combined cycle GS (Brighton Beach) with ATCO Power Canada Ltd. OPG accounts for its 50 percent ownership interest in each of these jointly controlled entities using the equity method.

Variable Interest Entities

OPG performs ongoing analysis to assess whether it holds any VIEs. VIEs of which OPG is deemed to be the primary beneficiary are consolidated. The primary beneficiary of a VIE has both the power to direct the activities of the entity that most significantly impact its economic performance and the obligation to absorb losses of the entity that could potentially be significant to the Company. In circumstances where OPG is not deemed to be the primary beneficiary, the VIE is not recorded in OPG's consolidated financial statements.

Nuclear Waste Management Organization

In 2002, OPG and other Canadian nuclear waste producers established a separately incorporated Nuclear Waste Management Organization (NWMO) in accordance with the *Nuclear Fuel Waste Act* (Canada) (NFWA). The primary long-term mandate of the NWMO is to implement an approach to address the long-term management of used nuclear fuel in Canada. OPG has the majority of voting rights at the NWMO Board of Directors' and members' level. The NFWA requires the nuclear fuel waste owners to establish and make payments into trust funds for the purpose of funding the implementation of the long-term nuclear used fuel management plan in accordance with the NFWA. OPG provides over 90 percent of the NWMO's funding, primarily towards the design and implementation of Canada's Adaptive Phased Management plan for the long-term management of nuclear used fuel. As a result, OPG is expected to absorb a majority of the NWMO's expected losses through future funding in the event of any shortfall. Therefore, OPG holds a variable interest in the NWMO, of which it is the primary beneficiary. Accordingly, the applicable amounts in the accounts of the NWMO, after elimination of intercompany transactions, are consolidated.

Fair Hydro Trust

On March 2, 2017, the Province announced Ontario's Fair Hydro Plan aimed at reducing electricity bills for all residential, farm, small businesses and other eligible consumers (Specified Consumers) in the province by refinancing a portion of the Global Adjustment over a longer period of time. The Global Adjustment includes the difference between Ontario's electricity market clearing price used to dispatch generation and the prices paid to contracted and regulated generators in the province, and the cost of conservation and demand management programs. On June 1, 2017, the *Ontario Fair Hydro Plan Act, 2017* (the Fair Hydro Act or the Act) received Royal Assent and the associated general regulation came into force in June 2017. Pursuant to the Act, effective May 1, 2017, the Independent Electricity System Operator (IESO) began to defer a portion of the Global Adjustment costs. The Act allows for the IESO to transfer a portion of the deferred balance to a financing entity that would fund the deferral in exchange for an irrevocable right to recover the balance and associated financing and other costs from Specified Consumers in the future (Investment Interest). The legislation appointed OPG as the Financial Services Manager under the Act and conveyed upon the Financial Services Manager statutory obligations, including the creation of one or more financing entities that may acquire an Investment Interest from the IESO.

In December 2017, the Fair Hydro Trust (the Trust) was established as a separate entity to be the financing entity contemplated by the Fair Hydro Act. The majority unitholder and beneficiary of the Trust is a wholly owned subsidiary of OPG. Immediately after the Trust's establishment, OPG entered into a management agreement with the Trust which provides OPG with the powers and duties of managing the Trust, including determining whether to acquire Investment Interest from the IESO, negotiating and executing all agreements, fulfilling all reporting requirements, and administering all of the Trust's day-to-day activities.

In order for the Trust to finance the acquisition of Investment Interest from the IESO, it incurs senior debt from capital markets and subordinated debt from OPG. The Trust's investment attracts financing amounts and other related fees. The Trust has minimal equity at risk to finance its activities. As part of the funding structure of the Trust, concurrent with every issuance of senior debt, it is expected that OPG will purchase subordinated debt of the Trust in an aggregate amount not to exceed 49 percent of the Trust's total outstanding debt. The subordination level may vary over time, but must be at least equal to 35 percent of the Trust's total outstanding debt. Approximately

90 percent of the amount of subordinated debt purchased by OPG is expected to be funded through equity injections in OPG by the Province, with the remainder being funded from OPG's available funds.

OPG exercises control over the key activities of the Trust. Management has concluded that OPG holds a variable interest in the Trust, of which OPG is the primary beneficiary, due to the obligation to absorb losses through ownership of the Trust's subordinated debt. Accordingly, the applicable amounts in the accounts of the Trust, after elimination of intercompany transactions, are consolidated.

PSS Generating Station LP

PSS Generating Station LP (PSS) is a limited partnership between OPG, Coral Rapids Power Corporation (CRP) and PSS Generating Station Inc. (PSS GS Inc.), a corporation owned by CRP and OPG. The principal business of the partnership is the development, construction, ownership, operation and maintenance of the 28-megawatt (MW) Peter Sutherland Sr. hydroelectric GS on the New Post Creek. OPG and PSS GS Inc. are general partners and CRP is a limited partner in the partnership. CRP is a wholly owned subsidiary of the Taykwa Tagamou Nation.

During the year ended December 31, 2017, PSS achieved commercial operations recognizing income and eliminating its deficit. Therefore, PSS has met the criteria of having sufficient equity to finance its activities and ceased being classified as a VIE. Since OPG is the primary beneficiary of PSS, it continues to consolidate PSS.

Use of Management Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the reporting period, and the reported amounts of revenues and expenses for the reporting periods. Management evaluates these estimates on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the estimate is made, with any adjustments recognized in the period incurred. Significant estimates are included in the determination of pension and other post-employment benefit (OPEB) balances, asset retirement obligations (AROs) and associated asset retirement costs capitalized as part of property, plant and equipment (PP&E), income taxes (including deferred income taxes), contingencies, regulatory assets and regulatory liabilities, valuation of investments in segregated funds, depreciation and amortization expenses and inventories. Actual results may differ significantly from these estimates.

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. All other money market securities with a maturity on the date of purchase that is greater than 90 days, but less than one year, are recorded as short-term investments and classified as current assets. These securities are valued at the lower of cost and market.

Inventories

Inventories, consisting of fuel and materials and supplies, are measured at the lower of cost and net realizable value. Cost is determined as weighted average cost for fuel inventory and average cost for materials and supplies.

Property, Plant and Equipment, Intangible Assets and Depreciation and Amortization

PP&E and intangible assets are recorded at cost. Interest costs incurred during construction and development are capitalized as part of the cost of the asset based on the interest rates on OPG's long-term debt. Expenditures for replacements of major components are capitalized.

Depreciation and amortization rates for the various classes of assets are based on their estimated service lives. Asset removal costs that have not been specifically provided for in current or previous periods are charged to operations, maintenance and administration (OM&A) expenses when incurred. Repairs and maintenance costs are expensed when incurred.

PP&E are depreciated on a straight-line basis, except for computers, which are depreciated on a declining balance basis. Intangible assets, which consist of major application software, are amortized on a straight-line basis.

As at December 31, 2017, the amortization periods of PP&E and intangible assets are as follows:

Nuclear generating stations and major components	5 to 74 years [1]
Hydroelectric generating stations and major components	10 to 100 years
Thermal generating stations and major components	5 to 50 years
Administration and service facilities	10 to 50 years
Computers – declining balance	12% to 40% per year
Major application software	5 years
Service equipment	5 to 10 years

[1] As at December 31, 2017, the end of station life for depreciation purposes for the Darlington, Pickering, Bruce A and Bruce B nuclear generating stations ranged between 2022 and 2061. Major components are depreciated over the lesser of the station life and the life of the components.

The accounting estimates related to end-of-life assumptions for PP&E and intangible assets require significant management judgment, including consideration of various operating, technological and economic factors. OPG reviews the estimated useful lives for its PP&E and intangible assets, including end-of-life assumptions for major generating assets, on a regular basis.

For nuclear generating stations operated by OPG, establishing station end-of-life assumptions primarily involves an assessment of operating lives of major life-limiting components such as fuel channel assemblies, taking into account expectations of future ability to economically operate and as appropriate refurbish the station for continued use. Expected operating lives of major life-limiting components are established through technical assessments of their fitness-for-service. Expectations of future ability to operate the station may be affected by operating licence requirements, ability to recover capital, operating and decommissioning costs, and government policy, among other factors.

Although there is a link between the age of a hydroelectric facility and the capital investment required to maintain that facility, age does not generally establish an overall upper limit on the expected useful life of a hydroelectric generating station. Regular maintenance and the replacement of specific components typically allow hydroelectric stations to operate for very long periods. An estimated useful life not exceeding 100 years is used by OPG to depreciate dams and other major hydroelectric station structures.

Station end-of-life assumptions for thermal generating stations are established based on operating life expectations of major station components and expectations of future ability to economically operate the station taking into consideration available revenue mechanisms.

Asset Impairment

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The review is based on the presence of impairment indicators such as the future economic benefit of the assets and external market conditions. The net carrying amount of assets is considered impaired if it exceeds the sum of the estimated undiscounted cash flows expected to result from the asset's use and eventual disposition. In cases where the sum of the undiscounted expected future cash flows is less than the carrying amount, an impairment loss is recognized. This loss equals the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available. The impairment is recognized in income in the period in which it is identified.

The carrying values of investments accounted for under the equity method are reviewed annually for the presence of any indicators of impairment. If an impairment exists and is determined to be other-than-temporary, an impairment charge is recognized. This charge equals the amount by which the carrying value exceeds the investment's fair value.

Rate Regulated Accounting

The *Ontario Energy Board Act, 1998* and *Ontario Regulation 53/05* provide that OPG receives regulated prices for electricity generated from 54 hydroelectric generating stations and the Pickering and Darlington nuclear generating stations (collectively, prescribed facilities or regulated facilities). OPG's regulated prices for these facilities are determined by the Ontario Energy Board (OEB).

The OEB is a self-funding Crown corporation. Its mandate and authority come from the *Ontario Energy Board Act, 1998,* the *Electricity Act, 1998*, and a number of other provincial statutes. The OEB is an independent, quasi-judicial tribunal that reports to the Legislature of the Province through the Ontario Ministry of Energy. It regulates market participants in Ontario's natural gas and electricity industries. The OEB carries out its regulatory functions through public hearings and other more informal processes such as consultations.

US GAAP recognizes that rate regulation can create economic benefits and obligations that are required by the regulator to be obtained from, or settled with, the customers. When the Company assesses that there is sufficient assurance that incurred costs in respect of the regulated facilities will be recovered in the future, those costs are deferred and reported as a regulatory asset. When the Company is required to refund amounts to customers in the future in respect of the regulated facilities, including amounts related to costs that have not been incurred but for which the OEB has provided recovery through regulated prices, the Company records a regulatory liability.

Certain of the regulatory assets and regulatory liabilities recognized by the Company relate to variance and deferral accounts (regulatory accounts) authorized by the OEB, including those authorized pursuant to *Ontario Regulation 53/05*. Variance and deferral accounts typically capture differences between actual costs and revenues and the corresponding forecast amounts approved by the OEB in setting regulated prices, or record the impact of items not reflected in the approved regulated prices. The measurement of these regulatory assets and regulatory liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of *Ontario Regulation 53/05* and the OEB's decisions. The estimates and assumptions made in the interpretation of the regulation and the OEB's decisions are reviewed as part of the OEB's regulatory process.

Regulatory assets and regulatory liabilities for variance and deferral account balances approved by the OEB for inclusion in regulated prices are amortized based on approved recovery or repayment periods.

Regulatory assets and regulatory liabilities for variance and deferral account balances approved by the OEB are classified as current if they are expected to be recovered from, or refunded to, customers within 12 months of the end of the reporting period, based on recovery or repayment periods authorized by the OEB.

In addition to regulatory assets and regulatory liabilities for variance and deferral accounts, OPG recognizes regulatory assets and regulatory liabilities for unamortized amounts recorded in accumulated other comprehensive income (AOCI) in respect of pension and OPEB obligations, deferred income taxes, and differences between interim regulated prices charged to customers during an interim rate period and final regulated prices authorized or to be authorized by the OEB for that period, to reflect the expected recovery or repayment of these amounts through future regulated prices to be charged to customers. There are measurement uncertainties related to these balances due to the assumptions made in the determination of pension and OPEB obligations, and deferred income taxes that are attributed to rate regulated business segments, and assumptions made with respect to final regulated prices to be authorized by the OEB for the interim rate period. Regulatory assets and regulatory liabilities for differences between interim regulated prices charged to customers during an interim period rate and final regulated prices authorized or to be authorized by the OEB for that period are classified as current if they are expected to be recovered from, or refunded to, customers within 12 months of the end of the reporting period, based on recovery or repayment periods authorized by the OEB. All other regulatory asset and regulatory liability balances are classified as non-current on the consolidated balance sheets.

The regulatory asset recognized by the Company for unamortized pension and OPEB amounts recorded in AOCI has reflected the OEB's use, since April 1, 2008, of the accrual basis of accounting for including pension and OPEB amounts in approved regulated prices for OPG. This is also the manner in which these costs are recognized in OPG's consolidated financial statements. Therefore, unamortized amounts in respect of OPG's pension and OPEB plans recognized in AOCI generally would not be reflected in regulated prices until they have been reclassified from AOCI and recognized as amortization components of the benefit costs for these plans. The regulatory asset is reversed as underlying unamortized balances are amortized as components of the benefit cost.

Since November 1, 2014, the OEB has limited amounts for pension and OPEB costs included in the approved revenue requirements and regulated prices to the regulated business portion of the Company's cash expenditures for its pension and OPEB plans. The difference between actual pension and OPEB costs determined using the accrual method applied in OPG's audited consolidated financial statements and OPG's actual cash expenditures for these plans is captured in the OEB-authorized Pension & OPEB Cash Versus Accrual Differential Deferral Account for future consideration by the OEB.

In 2017, the OEB issued a report outlining the guiding principles and policy for recovery mechanisms of pension and OPEB costs of rate regulated utilities in the Ontario electricity and natural gas sectors. The report establishes the accrual basis of accounting as the method of determining pension and OPEB amounts for rate-setting purposes, unless the OEB finds that this method does not result in just and reasonable rates in the circumstances of a particular utility. The OEB's report and the OEB's December 28, 2017 decision on OPG's application for new regulated prices require OPG to continue to record differences between pension and OPEB accrual costs and cash payments in the Pension & OPEB Cash Versus Accrual Differential Deferral Account, until such time as the OEB decides on the approval and implementation of resumption of the accrual basis of recovery for OPG. The OEB's December 28, 2017 decision stated that the OEB expects OPG to file an application in 2018 comprising the disposition of the next set of variance and deferral account balances that includes OPG's proposal for the Pension & OPEB Cash Versus Accrual Differential Deferral Account and for the method of recovery to be used for pension and OPEB amounts going forward.

It is the Company's position that the OEB's November 2014 and December 2017 decisions on OPG's applications for regulated prices and the OEB's 2017 report in this area do not constitute a change in the basis of OPG's rate recovery of pension and OPEB costs. The Company continues to believe that there is sufficient likelihood that unamortized pension and OPEB amounts that have not yet been reclassified from AOCI will be included in future regulated prices or in an OEB-authorized regulatory account for future recovery, as they are recognized in benefit costs. Therefore, the Company continues to recognize a regulatory asset for these unamortized amounts and also has recognized a regulatory asset for the balance of the Pension & OPEB Cash Versus Accrual Differential Deferral Account discussed further in Note 5.

Revenue Recognition

All of OPG's electricity generation is offered into the real-time energy spot market administered by the IESO. Revenue is recognized as electricity is generated and metered to the IESO.

Revenue Recognition – Regulated Generation

Energy revenue generated from OPG's regulated facilities is based on regulated prices determined by the OEB that include base regulated prices and, as applicable, rate riders for the recovery or repayment of approved variance and deferral account balances. The revenues from the regulated hydroelectric facilities are also subject to the OEB-approved hydroelectric incentive mechanism. This mechanism provides a pricing incentive to OPG to shift hydroelectric production from lower market price periods to higher market price periods, reducing the overall costs to customers.

The base regulated prices in effect during the period January 1, 2016 to May 31, 2017 were established by the OEB's November 2014 decision and December 2014 order, using a forecast cost-of-service rate-setting methodology based on the OEB-approved revenue requirements, taking into account the OEB-approved forecasts of production and operating costs for the regulated facilities for 2014 and 2015 and a return on rate base. Rate base is a regulatory construct that, for OPG, represents the average net level of investment in regulated fixed and intangible assets in-service and an allowance for working capital. The variance and deferral account rate riders in effect during 2016 were established by the OEB in its October 2015 order on OPG's application to recover balances in most of the Company's authorized variance and deferral accounts as at December 31, 2014.

On December 28, 2017, the OEB issued its decision on OPG's May 2016 application for new regulated prices for the 2017−2021 period. The OEB set an effective date for the new regulated prices of June 1, 2017. The decision included the OEB's findings with respect to ratemaking methodologies for the prescribed facilities, the basis for inputs into the hydroelectric incentive ratemaking formula, and the elements of the nuclear revenue requirement.

Pursuant to the decision, the new base regulated prices will be determined on an incentive ratemaking methodology for the hydroelectric facilities and under a custom incentive regulation framework for the nuclear facilities. For the hydroelectric facilities, the new base regulated prices for each of the years 2017 to 2021 will be determined using a formula that annually escalates the previously approved regulated prices, subject to some adjustments, based on an industry-specific weighted inflation factor less a stretch factor adjustment. For the nuclear facilities, the new base regulated prices will be determined under a rate smoothing approach that defers a portion of the approved nuclear revenue requirement for future collection in the Rate Smoothing Deferral Account authorized by the OEB pursuant to *Ontario Regulation 53/05*, with the objective of making changes in OPG's production-weighted average nuclear and hydroelectric regulated price more stable year over year. The nuclear revenue requirement for each of the years 2017 to 2021 is based on the OEB-approved forecast of operating costs as reduced by a stretch factor amount, and a return on rate base. The difference between the non-deferred portion of the nuclear revenue requirement calculated by multiplying the nuclear base regulated price determined under rate smoothing and the OEB-approved forecast of OPG's nuclear electricity production for the year, and the total approved nuclear revenue requirement for that year determines the portion of the revenue requirement deferred for future collection in the Rate Smoothing Deferral Account. Amounts recorded in the Rate Smoothing Deferral Account are recognized as adjustments to revenue.

In January 2018, OPG submitted a draft payment amounts order to the OEB that proposed nuclear base regulated prices for each year of the 2017−2021 period based on the December 2017 decision's findings, including a rate smoothing proposal, and calculated the hydroelectric base regulated prices for 2017 and 2018 based on OEB-published inputs into the approved ratemaking formula. In the fourth quarter of 2017, OPG recorded net revenue in respect of the June 1, 2017 to December 31, 2017 interim period and a corresponding increase in net regulatory assets based on the draft payment amounts order that represents management's best estimate of the impact of the new base regulated prices and rate smoothing approach on the 2017 fiscal year.

See Note 5 for further information on the OEB's decision on OPG's May 2016 application for new regulated prices and the Rate Smoothing Deferral Account.

Revenue Recognition – Non-regulated Generation and Other Revenue

The electricity generation from OPG's non-regulated assets receives the Ontario electricity spot market price, except where an energy supply agreement (ESA) with the IESO or another contractual agreement is in place. As at December 31, 2017, most of OPG's operating non-regulated assets are subject to an ESA. Revenue from the generating stations subject to an ESA is recognized in accordance with the terms of the agreement.

OPG also sells into, and purchases from, interconnected markets of other provinces and the northeast and midwest regions of the US. All contracts that are not designated as hedges are recorded on the consolidated balance sheets at market value, with gains or losses recorded in the consolidated statements of income. Gains and losses on energy trading contracts (including those to be physically settled) are recorded on a net basis in the consolidated statements of income. Accordingly, power purchases of $15 million were netted against revenue in 2017 (2016 – $19 million).

OPG derives non-energy revenue under the terms of a lease arrangement and associated agreements with Bruce Power L.P. (Bruce Power) related to the Bruce nuclear generating stations. This includes lease revenue and revenue from heavy water sales, detritiation services and waste management services. The minimum lease payments are recognized in revenue on a straight-line basis over the term of the lease.

In addition, non-energy revenue includes isotope sales, real estate rentals and other service revenues. Revenues from these activities are recognized as services are provided, or as products are delivered, in accordance with the terms stipulated in the respective contracts.

Fixed Asset Removal and Nuclear Waste Management Liabilities

OPG recognizes AROs for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG estimates both the amount and timing of future cash expenditures based on the plans for fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liabilities for nuclear fixed asset removal and nuclear waste management (Nuclear Liabilities) are increased by the present value of the incremental (variable) cost portion for the nuclear waste generated each year, with the corresponding amounts charged to OM&A expenses. Variable expenses relating to low and intermediate level radioactive waste (L&ILW) are charged to OM&A expenses. Variable expenses relating to the management and storage of nuclear used fuel are charged to fuel expense. The liabilities may also be adjusted due to changes in the estimated amount or timing of the underlying future cash flows, with resulting changes in the related asset retirement costs capitalized as part of the carrying amount of the related fixed assets in service. A comprehensive reassessment of all underlying assumptions and baseline cost estimates for the Nuclear Liabilities is performed periodically. Changes in the Nuclear Liabilities resulting from changes in assumptions or estimates that impact the amount or timing of the originally estimated undiscounted future cash flows are recorded as an adjustment to the liabilities. Upward revisions in the Nuclear Liabilities represent the present value of increases in future undiscounted cash flows determined using a current credit-adjusted risk-free rate. Downward revisions in the Nuclear Liabilities represent the present value of decreases in future undiscounted cash flows determined using the weighted average discount rate reflected in the existing liability. Upon settlement of the liabilities, a gain or loss would be recorded.

Accretion arises because the fixed asset removal and nuclear waste management liabilities are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time.

The asset retirement cost is capitalized by increasing the carrying value of the related fixed assets in service. The capitalized cost is depreciated over the remaining service life of the related fixed assets and is included in depreciation and amortization expenses.

OPG has no legal obligation associated with the decommissioning of its hydroelectric generating facilities and the costs cannot be reasonably estimated because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be used for the foreseeable future. Accordingly, OPG has not recognized a liability for the decommissioning of its hydroelectric generating facilities.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Pursuant to the Ontario Nuclear Funds Agreement (ONFA) between OPG and the Province, OPG has established and sets aside funds in a Used Fuel Segregated Fund and a Decommissioning Segregated Fund (together the Nuclear Segregated Funds). The Used Fuel Segregated Fund is intended to fund expenditures associated with the long-term management of radioactive used nuclear fuel bundles and certain costs of used fuel storage incurred after the nuclear stations are shut down, while the Decommissioning Segregated Fund was established to fund the costs of nuclear fixed asset removal and long-term L&ILW management, and certain costs of used fuel storage incurred after the nuclear stations are shut down. OPG's funding obligations and resulting contributions to the Nuclear Segregated Funds are determined based on periodically updated reference plans approved by the Province under the ONFA. OPG maintains the Nuclear Segregated Funds in third-party custodial and trust accounts that are segregated from the rest of OPG's assets.

OPG's investments in the Nuclear Segregated Funds and the corresponding amounts payable to/receivable from the Province are classified as held-for-trading. The Nuclear Segregated Funds are measured at fair value based on the bid prices of the underlying equity and fixed income securities, and, in the case of the real assets portfolio, using appropriate valuation techniques as outlined in Note 13, with realized and unrealized gains and losses recognized in OPG's consolidated statements of income.

Financing Receivables

OPG's financing receivables consist of the current and irrevocable right of the Fair Hydro Trust to collect payments from Specified Consumers in the future in accordance with the Fair Hydro Act and associated general regulation. These amounts are measured at the transaction price entered into with the IESO on market terms upon acquisition and subsequently measured on an amortized cost basis. The basis of amortization follows the effective interest method.

Derivatives

All derivatives, including embedded derivatives that must be separately accounted for, generally are classified as held-for-trading and recorded at fair value in the consolidated balance sheets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

Derivatives qualify for hedge accounting if they meet stringent documentation requirements, and if the derivative instrument that is designated as a hedge is expected to effectively hedge the identified risk throughout the life of the hedged item. At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective, and its strategy for undertaking the hedge. A documented assessment is made, both at the inception of a hedge and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

All derivative contracts not designated as hedges are recorded on the consolidated balance sheets as derivative assets or liabilities at fair value, with changes in the fair value recorded in the revenue of the Services, Trading, and Other Non-Generation segment. Refer to Note 12 for a discussion of OPG's risk exposures and the derivative instruments used to manage these risks.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly arm's-length transaction between market participants at the measurement date. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. OPG uses a fair value hierarchy, grouping assets and liabilities into three levels based on the relative objectivity of the inputs used to measure fair value, with Level 1 representing the most objective. Refer to Note 13 for a discussion of fair value measurements and the fair value hierarchy.

Available-for-Sale Securities

Available-for-sale (AFS) securities are measured at fair value, with unrealized gains and losses due to changes in fair value recognized in other comprehensive income (OCI). Gains and losses are realized and included in net income when the securities are sold or awarded. Related transaction costs are expensed as incurred, and dividend income is included in net income in the period dividends are declared. Equity securities are initially measured at the transaction price.

Research and Development

Research and development costs are expensed as incurred. Research and development costs incurred to discharge long-term obligations for which specific provisions have already been made, such as the Nuclear Liabilities, are charged to the related liability.

Leases

Leases are evaluated and classified as either operating or capital leases for financial reporting purposes. Capital leases, which transfer substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Capital leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Operating lease payments, other than contingent rentals, are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term. Where the amount of rent expense recognized is different from the actual operating lease payment, other than contingent rentals, the difference is deferred and included as assets or liabilities on the consolidated balance sheets.

Pension and Other Post-Employment Benefits

OPG's post-employment benefit programs consist of a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, and other postretirement benefits (OPRB) including group life insurance and health care benefits, and long-term disability (LTD) benefits. Post-employment benefit programs are also provided by the NWMO, which is consolidated into OPG's financial results. Unless otherwise noted, information on the Company's post-employment benefit programs is presented on a consolidated basis.

OPG accrues its obligations under pension and OPEB plans in accordance with US GAAP. The obligations for pension and OPRB are determined using the projected benefit method pro-rated on service. The obligation for LTD benefits is determined using the projected benefit method on a terminal basis. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, demographic assumptions, experience gains or losses, salary levels, inflation, and health care cost escalation assumptions. Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimate assumptions.

Assumptions are significant inputs to actuarial models that measure pension and OPEB obligations and related effects on operations. Discount rate, inflation rate, and changes in salary levels are three critical assumptions in the determination of benefit costs and obligations. In addition, the expected long-term rate of return on plan assets is a critical assumption in the determination of registered pension plan cost and the health care cost trend rate is a critical assumption in the determination of OPEB cost and obligations. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality, and employee turnover, are evaluated periodically by management in consultation with independent actuaries. During the evaluation process, the assumptions are updated to reflect past experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors giving rise to actuarial gains and losses. In accordance with US GAAP, for pension and OPRB, the impact of these updates and differences on the respective benefit obligations is accumulated and amortized over future periods. For LTD benefits, the impact of these updates and differences is immediately recognized as OPEB costs in the period incurred.

The discount rates, which are representative of AA corporate bond yields, are used to calculate the present value of the expected future cash flows on the measurement date in order to determine the projected benefit obligations for the Company's employee benefit plans. A lower discount rate increases the benefit obligations and increases benefit costs. The expected rate of return on plan assets is based on the pension fund's asset allocation and the expected return considering long-term risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

Pension fund assets include equity securities, corporate and government debt securities, pooled funds, real estate, infrastructure, and other investments. These assets are managed by professional investment managers. The pension fund does not invest in equity or debt securities issued by OPG. Pension fund assets are valued using market-related values for purposes of determining the amortization of actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments, and adjustments for actuarial gains or losses, which result from changes in assumptions and experience gains and losses. Past service costs or credits arising from pension and OPRB plan amendments are amortized on a straight-line basis over the expected average remaining service life to full eligibility of the employees covered by the corresponding plan. Past service costs or credits arising from amendments to LTD benefits are immediately recognized as OPEB costs in the period incurred. Due to the long-term nature of pension and OPRB liabilities, the excess of the net cumulative unamortized gain or loss, over 10 percent of the greater of the benefit obligation and the market-related value of the plan assets (the corridor), is amortized over the expected average remaining service life of the employees, which represents the period during which the associated economic benefits are expected to be realized by the Company. Actuarial gains or losses for LTD benefits are immediately recognized as OPEB costs in the period incurred.

OPG recognizes the funded status of its defined benefit plans on the consolidated balance sheets. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation, on a plan-by-plan basis.

Actuarial gains or losses and past service costs or credits arising during the year that are not recognized immediately as components of benefit costs are recognized as increases or decreases in OCI, net of income taxes. These unamortized amounts in AOCI are subsequently reclassified and recognized as components of pension and OPRB costs as described above.

OPG records an offsetting regulatory asset or liability for the portion of the adjustments to AOCI that is attributable to the regulated operations in order to reflect the expected recovery or refund of these amounts through future regulated prices charged to customers. For the recoverable or refundable portion attributable to regulated operations, OPG records a corresponding change in this regulatory asset or liability for the amount of the increases or decreases in OCI and for the amounts reclassified from AOCI into benefit costs during the period.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Income Taxes and Investment Tax Credits

OPG is exempt from income taxes under the *Income Tax Act* (Canada). However, under the *Electricity Act, 1998*, OPG is required to make payments in lieu of corporate income taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario), as modified by the *Electricity Act, 1998* and related regulations. This results in OPG paying taxes similar to those imposed under the federal and Ontario tax acts.

OPG's operations are complex and the computation of the provision for income taxes involves interpretation of the various tax statutes and regulations. OPG has taken certain filing positions in calculating the amount of its income tax provision. These filing positions may be challenged on audit by the Ontario Ministry of Finance and some of them possibly disallowed, resulting in a potential significant change in OPG's tax provision upon reassessment. A change in the tax provision upon reassessment impacting regulated operations may be recoverable from or refundable to customers through the Income and Other Taxes Variance Account and the SR&ED ITC Variance Account authorized by the OEB.

OPG follows the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities. Deferred amounts are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in tax rates on deferred income tax assets and liabilities is included in income in the period the change is enacted.

If management determines that it is more likely than not that some, or all, of a deferred income tax asset will not be realized, a valuation allowance is recorded to report the balance at the amount expected to be realized.

OPG recognizes deferred income taxes associated with its regulated operations and records an offsetting regulatory asset or liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return and investment tax credits are recorded only when the more likely than not recognition threshold is satisfied. Tax benefits and investment tax credits recognized are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement.

Investment tax credits are recorded as a reduction to income tax expense. OPG classifies interest and penalties associated with unrecognized income tax benefits as income tax expense.

Changes in Accounting Estimates

Useful Lives of Nuclear Long-Lived Assets

In the fourth quarter of 2017, OPG revised the accounting assumptions for the estimated useful life of the Pickering GS for the purposes of calculating depreciation. Effective December 31, 2017, the average service life of the Pickering GS was extended from an end-of-life date of December 31, 2020 for all six operating units to December 31, 2022 for Units 1 and 4 and December 31, 2024 for Units 5 to 8. The change in the useful life reflected completion of technical assessments that provided sufficient confidence in the programs and provisions in place to assure fitness-for-service of key life-limiting fuel channel components of the station, in line with the station's planned commercial operation period to 2024. This evaluation was consistent with the safety case reflected in OPG's operating licence renewal application for the Pickering GS submitted to the Canadian Nuclear Safety Commission (CNSC) in 2017. Although the current five-year operating licence for the station expires on August 31, 2018, based on the evidence and documentation submitted to the CNSC, OPG believes it is well positioned to obtain a licence renewal that would support continued commercial operation of the Pickering GS to 2024. The change to the estimated service life of the Pickering GS has been reflected in an increase to the estimate of the Nuclear Liabilities of $188 million as at

December 31, 2017, with a corresponding increase in the carrying value of the Pickering GS fixed asset balance.

The change in the Pickering GS accounting end-of-life assumptions did not impact OPG's net income in 2017. Excluding the impact of regulatory accounts, the change in the accounting end-of-life assumptions inclusive of the associated change in the Nuclear Liabilities is expected to decrease depreciation expense by approximately $77 million in 2018. Regulatory accounts, including a new deferral account proposed by OPG in an application to the OEB on December 29, 2017, are expected to offset the decrease in depreciation expense, beginning on January 1, 2018. Pending its review of this application, the OEB issued an order on January 31, 2018 establishing the proposed deferral account on an interim basis to allow OPG to begin recording amounts in the account as of January 1, 2018.

Non-Nuclear Fixed Asset Removal Liability Estimate

OPG updated the estimate of the liabilities for non-nuclear fixed asset removal as at December 31, 2017. As at December 31, 2017, OPG recognized a decrease in the non-nuclear fixed asset removal liabilities of approximately $30 million relating to thermal stations, resulting in a net decrease in asset retirement costs of $18 million capitalized as part of the carrying value of PP&E for the operating stations and a gain of $12 million recognized in net income in the fourth quarter of 2017 related to the Nanticoke and Lambton generating stations that are no longer in use and have been fully depreciated. For the operating sites, the updated estimates were based on a review of required decommissioning, clean-up and restoration activities, underlying economic assumptions, and anticipated timing of these activities in line with current accounting end-of-life assumptions. For the Nanticoke and Lambton sites, the update was based on the estimated cost of executing current decommissioning plans.

Pension and Other Post-Employment Benefits

Effective January 1, 2017, OPG changed the approach to estimate the service and interest cost components of pension and OPEB costs. OPG adopted a full yield curve approach to the estimation of these cost components, by applying the specific spot rates along the yield curve used in the determination of the projected benefit obligations to the relevant projected cash flows. Under the previous approach used in 2016 and prior years, these components of pension and OPEB costs were calculated using the same single equivalent discount rates as reflected in the calculation of the benefit obligations. This change in the approach was accounted for prospectively, as a change in estimate. The resulting reduction in 2017 pension and OPEB costs was approximately $135 million. Approximately 90 percent of this reduction in pension and OPEB costs was attributed to the Company's regulated business segments and therefore was offset by the impact of regulatory accounts authorized by the OEB. This change does not affect the measurement of the total benefit obligations, as the change in the current service and interest cost components from the previous approach is offset by a corresponding change in the actuarial gain or loss recorded in AOCI.

A new actuarial valuation of the OPG registered pension plan was filed with the Financial Services Commission of Ontario (FSCO) in September 2017 with an effective date of January 1, 2017. The annual funding requirements in accordance with the new actuarial valuation are outlined in Note 16. As part of the valuation, the plan's demographic and other assumptions were reviewed and revised, as necessary, by independent actuaries. Using these updated demographic assumptions and demographic data as at January 1, 2017 consistent with the new funding valuation for the registered pension plan, OPG also conducted a comprehensive actuarial valuation for accounting purposes of its pension and OPEB plans in 2017. The results of this valuation were reflected in the 2017 year-end obligations reflecting appropriate assumptions for accounting purposes as at December 31, 2017.

The discount rate used to determine the projected pension benefit obligations and the projected benefit obligations for OPEB as at December 31, 2017 was approximately 3.6 percent. This represents a decrease compared to the discount rate or approximately 3.9 percent that was used to determine the obligations as at December 31, 2016.

The deficit for the registered pension plan, for accounting purposes, increased from $2,693 million as at December 31, 2016 to $3,081 million as at December 31, 2017. This increase was largely due to a remeasurement of the liabilities at the end of 2017 reflecting lower discount rates, partially offset by the excess of actual returns on the pension plan assets over interest costs on the liabilities during the year.

The projected benefit obligations for OPEB plans increased from $2,992 million as at December 31, 2016 to $3,190 million as at December 31, 2017. This increase was largely due to a remeasurement of the liabilities at the end of 2017 reflecting a decrease in the discount rates, partially offset by the updated, lower per capita health care claims costs assumption as part of the 2017 actuarial valuation.

As at December 31, 2017, the unamortized net actuarial loss and unamortized past service costs for the pension and OPEB plans totalled $4,148 million (2016 – $3,668 million). Details of the unamortized net actuarial loss and unamortized past service costs as at December 31, 2017 and 2016 are as follows:

	Registered Pension Plans		**Supplementary Pension Plans**		**Other Post-Employment Benefits**	
(millions of dollars)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Net actuarial gain not yet subject to amortization due to use of market-related values	**(418)**	(570)	**-**	-	**-**	-
Net actuarial loss not subject to amortization due to use of the corridor	**1,735**	1,619	**36**	34	**299**	267
Net actuarial loss subject to amortization	**2,333**	2,238	**80**	72	**79**	3
Unamortized net actuarial loss	**3,650**	3,287	**116**	106	**378**	270
Unamortized past service costs	**-**	-	**-**	-	**4**	5

A change in the following assumptions, holding all other assumptions constant, would increase (decrease) pension and OPEB costs for the year ended December 31, 2017 as follows:

(millions of dollars)	**Registered Pension Plans [1]**	**Supplementary Pension Plans [1]**	**Other Post-Employment Benefits [1]**
Expected long-term rate of return			
0.25% increase	(32)	n/a	n/a
0.25% decrease	32	n/a	n/a
Discount rate			
0.25% increase	(56)	(1)	(2)
0.25% decrease	59	1	13
Inflation [2]			
0.25% increase	98	1	-
0.25% decrease	(91)	(1)	-
Salary increases			
0.25% increase	22	3	-
0.25% decrease	(20)	(2)	-
Health care cost trend rate			
1% increase	n/a	n/a	77
1% decrease	n/a	n/a	(29)

n/a – change in assumption not applicable.

[1] Excludes the impact of regulatory accounts.

[2] With a corresponding change in the salary increase assumption

Recent Accounting Pronouncements Not Yet Adopted

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes nearly all existing revenue recognition guidance, including industry-specific guidance, under US GAAP. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018, including interim periods within that year. Early adoption is permitted.

OPG has assessed the impact of the standard on accounting for the Company's revenue streams and consolidated financial statements. OPG's major revenue streams include generation revenue from regulated prices established by the OEB and revenue from generation assets under long-term contractual arrangements with the IESO. OPG has substantially completed its analyses of the impact of Topic 606 on all of its revenue streams, and has not identified any material differences in the timing or amount of revenue recognition.

The Company will apply the new revenue standard in its 2018 first quarter interim financial statements and is in the process of evaluating the additional disclosures required under the new standard.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. Under the updated guidance, entities will have to measure equity investments at fair value and recognize any changes in fair value in net income. The update will be effective for OPG's 2018 fiscal year, including interim periods. As a result of this update, effective January 1, 2018, the AFS classification for securities will no longer be available, with any unrealized gains and losses related to such securities recognized in net income instead of OCI. Any unrealized gains and losses for AFS securities reported by OPG in AOCI as of the end of 2017 will be reclassified to retained earnings as of January 1, 2018. As at December 31, 2017, a cumulative loss of $9 million on OPG's AFS securities was recorded in AOCI, and will be reclassified to opening retained earnings effective January 1, 2018. There are no other significant differences to OPG's consolidated financial statements upon adoption of the new standard.

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) to replace existing lease accounting guidance under Topic 840. The update includes comprehensive changes to existing guidance, particularly for lessees, and aims to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet. The standard is effective for annual periods beginning after December 15, 2018, including interim periods within that year.

Under the current guidance related to the new leasing standard, entities are required to use a modified retrospective approach for leases that exist, or are entered into, after the beginning of the earliest comparative period presented in the financial statements of the period of adoption. Under this method, Topic 842 would effectively be implemented by recognizing any adjustments stemming from the transition as of the beginning of the earliest comparative period presented in the entity's financial statements. Full retrospective application is prohibited. In January 2018, the FASB issued a proposed ASU (ASU 2018-200) wherein entities would be able to utilize an additional optional transition method of recording the cumulative impact of adopting the new lease standard as an adjustment to opening balances in the initial period of adoption, with comparative periods continuing to be presented in accordance with Topic 840, including disclosures. The Company will continue to monitor the status of this proposed ASU.

The FASB also issued ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842* in January 2018. The amendments therein allow an entity to choose not to evaluate under Topic 842 land easements that exist or expired before the entity's adoption of the new leasing standard and that were not previously accounted for as leases under Topic 840.

The Company continues to implement and execute a comprehensive project governance framework, which comprises a Steering Committee, Implementation & Stakeholder Committee, Project Management Office, and various working groups in order to evaluate and implement the new standard. The working groups are represented by cross functional finance and non-finance stakeholders and will support the financial and operational implementation of the standard. The Company continues to evaluate the impact of the new leasing standard on its consolidated financial statements.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Under the new guidance, employers that sponsor defined benefit plans for pensions and/or other postretirement benefits are required to present the service cost component of net periodic benefit cost in the same statement of income line item as other employee compensation costs arising from services rendered during the period. The other components of the net periodic benefit cost are to be presented separately from the line item that includes the service cost and outside of any subtotal of income from operations, if such a subtotal is presented. In addition, the new guidance requires that only the service cost component of net benefit cost be eligible for capitalization.

This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods of those years. The guidance will not have a material impact on OPG's consolidated financial statements, as OPG currently capitalizes only the service cost component of postretirement benefits costs. Additionally, OPG already includes the service cost component of postretirement benefit costs with other compensation costs, within the OM&A expenses line item in the consolidated statements of income, and does not show a subtotal of income from operations. As such, the new guidance will not affect the presentation of OPG's consolidated financial statements.

4. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND DEPRECIATION AND AMORTIZATION

PP&E as at December 31 consist of the following:

(millions of dollars)	**2017**	**2016**
Nuclear generating stations	**11,985**	11,057
Regulated hydroelectric generating stations	**9,566**	9,430
Contracted generation portfolio generating stations	**3,935**	3,751
Other property, plant and equipment	**372**	1,595
Construction in progress	**4,092**	3,482
	29,950	29,315
Less: accumulated depreciation		
Generating stations	**8,480**	7,948
Other property, plant and equipment	**148**	1,369
	8,628	9,317
	21,322	19,998

Construction in progress as at December 31 consists of the following:

(millions of dollars)	2017	2016
Darlington Refurbishment	**3,507**	2,563
Peter Sutherland Sr. GS	**17**	236
Other	**568**	683
	4,092	3,482

Interest capitalized to construction in progress during 2017 was $162 million (2016 – $141 million), at an average rate of five percent (2016 – five percent).

Intangible assets as at December 31 consist of the following:

(millions of dollars)	2017	2016
Nuclear generating stations	**122**	122
Regulated hydroelectric generating stations	**6**	7
Contracted generation portfolio generating stations	**5**	4
Computer software and other intangible assets	**393**	350
Development in progress	**39**	20
	565	503
Less: accumulated amortization		
Generating stations	**123**	120
Computer software and other intangible assets	**309**	284
	432	404
	133	99

Depreciation and amortization expenses, including amounts recognized in regulatory variance and deferral accounts authorized by the OEB, for the years ended December 31 consist of the following:

(millions of dollars)	2017	2016
Depreciation	**649**	602
Amortization of intangible assets	**30**	27
Amounts recognized in regulatory variance and deferral accounts	**-**	26
Amortization of regulatory assets and liabilities *(Note 5)*	**-**	602
	679	1,257

Shareholder Declarations and Shareholder Resolutions to Sell Certain Non-Core Real Estate Properties

In December 2015, OPG received a Shareholder Declaration and a Shareholder Resolution requiring the Company to sell its head office premises and associated parking facility located at 700 University Avenue and 40 Murray Street in Toronto, Ontario. The sale was completed in April 2017 with a gain on sale of $283 million, which is net of tax effects of $95 million, recognized in net income during the year ended December 31, 2017. The pre-tax gain on sale was recorded as an item of Other gains in the consolidated statement of income in the Services, Trading, and Other Non-Generation segment. Pursuant to the Shareholder Declaration and Shareholder Resolution, and as prescribed in the *Trillium Trust Act, 2014*, OPG is required to transfer the proceeds from this disposition, net of prescribed deductions under the Act, into the Province's Consolidated Revenue Fund. The amount of designated proceeds to be transferred into the Consolidated Revenue Fund is expected to approximate the after-tax gain on sale. The transfer is expected to take place as early as in the first quarter of 2018, following a special dividend authorized by OPG's Board of Directors in March 2018.

In June 2016, OPG received a Shareholder Declaration and a Shareholder Resolution that requires the Company to sell its former Lakeview GS site located in Mississauga, Ontario. OPG has entered into a purchase and sale agreement with a purchaser, with the sale scheduled to close in March 2018. Pursuant to the Shareholder Declaration and Shareholder Resolution, and as prescribed in the *Trillium Trust Act, 2014*, OPG is required to transfer the proceeds from this disposition, net of prescribed deductions under the Act, into the Province's Consolidated Revenue Fund. In accordance with the Shareholder Resolution, approximately one-third of the site is to be transferred to the City of Mississauga, by the purchaser, for parkland, institutional, and cultural uses. The Lakeview GS site assets were fully depreciated prior to initiating an active program to locate a buyer.

5. REGULATORY ASSETS AND LIABILITIES

Through its March 2017 approval of a partial settlement agreement reached by OPG and intervenors on a limited set of issues in OPG's May 2016 application for new regulated prices for the 2017−2021 period (Settlement Agreement) and its December 2017 decision on the application, the OEB approved OPG's request to recover amounts totalling $305 million related to previously recorded variance and deferral account balances, without adjustments. These approved amounts relate to the December 31, 2015 balances in all of the Company's OEB-authorized regulatory accounts, with the exception of the Pension & OPEB Cash Versus Accrual Differential Deferral Account, less amounts previously approved for recovery or repayment for these accounts in 2016. In its draft payment amounts order submitted to the OEB in January 2018, OPG proposed that the approved regulatory account amounts be recovered over a three-year period of 2019 to 2021. The final recovery period will be determined by the OEB through the payment amounts order process. During 2017, OPG did not recover or repay any variance and deferral account balances and did not record any amortization related to regulatory assets and regulatory liabilities for these accounts.

During 2016, OPG recorded amortization of regulatory assets and liabilities for the variance and deferral account balances approved for disposition by the OEB's October 2015 order, on a straight-line basis, based on recovery or repayment periods authorized by that order.

The OEB's approval of the Settlement Agreement provided for the continuation of all applicable previously existing variance and deferral accounts effective June 1, 2017. Consistent with the effective date of the OEB's December 2017 decision, for the period from January 1, 2016 to May 31, 2017, OPG recognized regulatory assets and regulatory liabilities for additions recorded in these accounts pursuant to the OEB's previous decisions and orders, relative to amounts reflected in the cost-of-service regulated prices in effect prior to June 1, 2017. For the period from June 1, 2017 to December 31, 2017, OPG recognized regulatory assets and regulatory liabilities for additions recorded in these accounts consistent with the OEB's December 2017 decision and OPG's January 2018 draft payment amounts order submission.

Where authorized by the OEB, OPG recorded interest on unamortized balances in the variance and deferral accounts at the OEB-prescribed interest rate of 1.10 percent per annum during the period from January 1, 2016 to September 30, 2017 and 1.50 percent per annum during the fourth quarter of 2017.

The regulatory assets and liabilities recorded as at December 31 are as follows:

(millions of dollars)	**2017**	**2016**
Regulatory assets		
Variance and deferral accounts authorized by the OEB		
Pension and OPEB Cost Variance Account	**716**	716
Pension & OPEB Cash Versus Accrual Differential Deferral Account	**614**	497
Hydroelectric Surplus Baseload Generation Variance Account	**360**	210
Bruce Lease Net Revenues Variance Account	**121**	95
Other variance and deferral accounts	**124**	107
	1,935	1,625
Interim Period Revenue Shortfall	**544**	-
Pension and OPEB Regulatory Asset *(Note 11)*	**3,855**	3,392
Deferred Income Taxes	**897**	838
Total regulatory assets	**7,231**	5,855
Regulatory liabilities		
Variance and deferral accounts authorized by the OEB		
Hydroelectric Water Conditions Variance Account	**150**	51
Pension & OPEB Cash Payment Variance Account	**140**	58
Changes in Station End-of-Life Dates Deferral Account	**103**	71
Other variance and deferral accounts	**201**	130
Total regulatory liabilities	**594**	310

The changes in the regulatory assets and liabilities during 2017 and 2016 are as follows:

(millions of dollars)	Pension and OPEB Cost Variance	Pension & OPEB Cash vs Accrual Differential Deferral	Hydroelectric Surplus Baseload Generation Variance	Bruce Lease Net Revenues Variance	Hydroelectric Water Conditions Variance	Pension & OPEB Cash Variance	Changes in Station End-of-Life Dates Deferral	Other Variance and Deferral (net)	Interim Period Revenue Shortfall	Pension and OPEB Regulatory Asset	Deferred Income Taxes
Net regulatory assets (liabilities) January 1, 2016	865	315	114	95	(23)	28	-	260	-	3,362	792
Increase (decrease)	-	182	126	143	(33)	(86)	(71)	-	-	30	46
Interest	-	-	2	-	(1)	-	-	1	-	-	-
Amortization	(149)	-	(32)	(143)	6	-	-	(284)	-	-	-
Net regulatory assets (liabilities) December 31, 2016	716	497	210	95	(51)	(58)	(71)	(23)	-	3,392	838
Increase (decrease)	**-**	**117**	**146**	**25**	**(98)**	**(81)**	**(32)**	**(52)**	**544**	**463**	**59**
Interest	**-**	**-**	**4**	**1**	**(1)**	**(1)**	**-**	**(2)**	**-**	**-**	**-**
Net regulatory assets (liabilities) December 31, 2017	**716**	**614**	**360**	**121**	**(150)**	**(140)**	**(103)**	**(77)**	**544**	**3,855**	**897**

Pension and OPEB Cost Variance Account

As authorized by the OEB, for the period from March 1, 2011 to October 30, 2014, the Pension and OPEB Cost Variance Account recorded the differences between OPG's actual pension and OPEB costs for the regulated business determined on an accrual basis and related tax impacts, and corresponding forecast amounts reflected in the regulated prices then in effect. In its November 2014 and December 2017 decisions, the OEB determined that the pension and OPEB amounts reflected in OPG's regulated prices established by these decisions effective November 1, 2014 and June 1, 2017, respectively, would be limited to the Company's estimated minimum contributions to its registered pension plan and a forecast of OPG's expenditures on the OPEB and supplementary pension plans for the regulated business. As such, the OEB has ordered the Pension and OPEB Cost Variance Account to record only amortization since November 1, 2014, as applicable.

In its October 2015 order, the OEB approved the continuation of the previously authorized recovery of 10/12 of the account balance as at December 31, 2012 over a 144-month period to December 31, 2024. Amounts recorded in the account in 2013 and 2014 were approved for recovery over a 72-month period commencing July 1, 2015 by the OEB's October 2015 order. Consistent with the October 2015 order, regulatory amounts to be recovered pursuant to the OEB's 2017 decisions included one-sixth of the previously approved 10/12 portion of the Pension and OPEB Cost Variance Account balance as at December 31, 2012 and one-third of the previously approved amounts recorded in the account in 2013 and 2014.

Pension & OPEB Cash Versus Accrual Differential Deferral Account

The Pension & OPEB Cash Versus Accrual Differential Deferral Account was originally established by the OEB's November 2014 decision and December 2014 order and was continued by the OEB's 2017 decisions. Effective November 1, 2014, this deferral account records the difference between OPG's actual pension and OPEB costs for the regulated business determined on an accrual basis under US GAAP and OPG's corresponding actual cash expenditures for these plans. The balance in the account as at December 31, 2017 represents the excess of costs calculated using the accrual basis over the cash basis for the period from November 1, 2014 to December 31, 2017. As discussed in Note 3, the Company has recognized the amount set aside in the deferral account as a regulatory asset. The OEB's December 2017 decision stated that the OEB expects OPG to file an application in the 2018 calendar year comprising the disposition of the next set of variance and deferral account balances that includes OPG's proposal for the Pension & OPEB Cash Versus Accrual Differential Deferral Account and for the method of recovery of pension and OPEB amounts to be used going forward.

In accordance with US GAAP requirements, OPG recognizes a regulatory asset for the OPEB portion of deferred costs recorded in the Pension & OPEB Cash Versus Accrual Differential Deferral Account to the extent that the recovery of these costs commences within five years and is completed in full within 20 years of the period in which the costs were incurred, provided that the pattern of recovery within these constraints does not result in rate increases for a future year that is higher than the previous year.

Hydroelectric Surplus Baseload Generation Variance Account

The Hydroelectric Surplus Baseload Generation Variance Account records the impact of forgone production at OPG's regulated hydroelectric facilities due to surplus baseload generation conditions.

Variance and deferral account balances approved for disposition by the OEB's 2017 decisions included amounts recorded in this variance account during 2015.

Bruce Lease Net Revenues Variance Account

In accordance with *Ontario Regulation 53/05*, the OEB is required to include the difference between OPG's revenues and costs associated with the two nuclear generating stations on lease to Bruce Power in the determination of the regulated prices for production from OPG's regulated nuclear facilities. Based on *Ontario Regulation 53/05* requirements, the OEB has established a variance account that captures differences between OPG's actual revenues and costs related to these stations and the corresponding forecasts included in approved nuclear regulated prices, including the costs associated with OPG's Nuclear Liabilities and the earnings from the portion of the Nuclear Segregated Funds related to the Bruce stations.

The OEB had previously ordered the portion of the balance in the Bruce Lease Net Revenues Variance Account related to the impact of the derivative liability then embedded in the terms of the lease agreement between OPG and Bruce Power related to the Bruce nuclear generating stations (Bruce Lease) to be recovered on the basis of OPG's expected rent rebate payments to Bruce Power and associated income tax impacts. The OEB's October 2015 order authorized amounts to be recovered from customers for the derivative liability on this basis, over the period to the end of 2016. In December 2015, as a result of amendments to the Bruce Lease, OPG reversed the derivative liability, with a corresponding reduction to the regulatory asset for the Bruce Lease Net Revenues Variance Account. Amounts collected from customers for the derivative liability for periods after its reversal are subject to refund in the future and have been recognized as a regulatory liability as part of the variance account balance.

The regulatory asset balance for the Bruce Lease Net Revenues Variance Account as at December 31, 2017 reflects a net amount of $190 million recoverable from customers for non-derivative variances recorded in 2015 through 2017, which is partially offset by a liability of $69 million to customers for amounts recovered for the derivative liability since its reversal in December 2015. Non-derivative amounts recorded during 2016 and 2017 included those arising from the adjustment to the Nuclear Liabilities and related changes to the estimated service lives of OPG's nuclear stations, for accounting purposes, effective December 31, 2015 and the adjustment to the Nuclear Liabilities effective December 31, 2016 resulting from the ONFA reference plan update process.

Variance and deferral account balances approved for disposition by the OEB's 2017 decisions included non-derivative amounts recorded in the Bruce Lease Net Revenues Variance Account during 2015 as well as amounts refundable to customers in respect of the derivative liability.

Interim Period Revenue Shortfall

The Interim Period Revenue Shortfall regulatory asset as at December 31, 2017 reflects an estimate of the revenue shortfall arising from the difference between previously approved regulated prices that continued to be charged to customers for OPG's nuclear and regulated hydroelectric generation for the June 1, 2017 to December 31, 2017 interim period and new regulated prices to be authorized by the OEB for that period as part of the final payment amounts order process. OPG recognized the Interim Period Revenue Shortfall regulatory asset and a corresponding increase to revenue in the fourth quarter of 2017 to reflect management's best estimate of new regulated prices based on the OEB's December 2017 decision, being the regulated prices proposed by OPG in its January 2018 submission of the draft payment amounts order to the OEB.

The December 2017 decision determined that OPG will recover the interim period revenue shortfall for the period between June 1, 2017 and the implementation date of the new regulated prices through prospective rate riders, over a period to be determined as part of the payment amounts order process. OPG's draft payment amounts order proposed a three-year recovery period of 2019 to 2021 for the revenue shortfall.

Pension and OPEB Regulatory Asset

The Pension and OPEB Regulatory Asset represents unamortized amounts in respect of OPG's pension and OPEB plans that have been recognized in OCI and not yet reclassified into the amortization component of the benefit costs in respect of these plans. These amounts are expected to be recovered from customers through future regulated prices. The regulatory asset is reversed as underlying unamortized balances are amortized as components of benefit costs. For further details, refer to Note 3 under the heading, *Rate Regulated Accounting*. The AOCI amounts related to pension and OPEB plans are presented in Note 11.

Deferred Income Taxes

OPG is required to record a regulatory asset or regulatory liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers for generation from OPG's regulated facilities. In addition, OPG is required to recognize a deferred income tax liability or asset for the regulatory asset or regulatory liability for the amount of deferred income taxes expected to be included in future regulated prices and recovered from, or paid to customers. Income taxes are discussed in Note 9.

Hydroelectric Water Conditions Variance Account

The Hydroelectric Water Conditions Variance Account captures the impact of differences in regulated hydroelectric electricity production due to differences between forecast water conditions underlying the production forecast approved by the OEB in setting regulated hydroelectric prices, and the actual water conditions.

Variance and deferral account balances approved for disposition by the OEB's 2017 decision included amounts recorded in this variance account during 2015.

Pension & OPEB Cash Payment Variance Account

The Pension & OPEB Payment Variance Account was originally established by the OEB's November 2014 decision and December 2014 order and was continued by the OEB's 2017 decisions. The account records the difference between OPG's actual contributions to its registered pension plan and expenditures on its OPEB and supplementary pension plan plans for the regulated business, and such forecast amounts reflected in the regulated prices.

Variance and deferral account balances approved for disposition by the OEB's 2017 decisions included the balance in this variance account as of December 31, 2015.

Changes in Station End-of-Life Dates Deferral Account

The Changes in Station End-of-Life Dates Deferral Account was established by the OEB effective January 1, 2016 in response to an application by OPG for an accounting order to establish a new deferral account to record the revenue requirement impact on the Pickering and Darlington nuclear generating stations of changes to the Nuclear Liabilities and depreciation expense arising from extensions in the estimated useful lives of OPG's nuclear stations, for accounting purposes, effective December 31, 2015. These impacts were not reflected in the regulated prices in effect prior to June 1, 2017. The deferral account recorded these impacts until the effective date for new regulated prices of June 1, 2017 established by the OEB's December 2017 decision. The new regulated prices will reflect the impacts of the above changes in Nuclear Liabilities and depreciation expense.

Nuclear Liability Deferral Account

Pursuant to *Ontario Regulation 53/05*, the OEB has authorized the Nuclear Liability Deferral Account in connection with changes to OPG's liabilities for nuclear used fuel management and nuclear decommissioning and L&ILW management associated with the nuclear facilities owned and operated by OPG, which are comprised of the Pickering and Darlington nuclear generating stations. The deferral account records the revenue requirement impact associated with the changes in these liabilities arising from an approved reference plan, in accordance with the terms of the ONFA. Effective January 1, 2017, the Province approved the 2017−2021 ONFA reference plan (2017 ONFA Reference Plan). As the regulated prices in effect prior to June 1, 2017 did not reflect the impact of the 2017 ONFA Reference Plan, OPG recorded an increase in the regulatory asset for the Nuclear Liability Deferral Account during the period from January 1, 2017 to May 31, 2017. The new regulated prices effective June 1, 2017 will reflect the impact of the 2017 ONFA Reference Plan.

Components of the increase in the regulatory asset for the deferral account recorded during the years ended December 31, with reductions (increases) to corresponding expenses, are summarized as follows:

(millions of dollars)	**2017**	**2016**
Fuel expense	**(1)**	-
Low and intermediate level waste management variable expenses [1]	**2**	2
Depreciation expense	**10**	-
Return on rate base [2]	**(6)**	-
Income taxes	**11**	-
	16	2

[1] Amount was recorded as a reduction to OM&A expenses.

[2] Amount was recorded as an increase to accretion on fixed asset removal and nuclear waste management liabilities.

Rate Smoothing Deferral Account

The Rate Smoothing Deferral Account was established by the OEB's December 2017 decision pursuant *to Ontario Regulation 53/05*. The deferral account records, for future recovery, a portion of the annual OEB-approved revenue requirements for OPG's nuclear facilities during the period from January 1, 2017 to the end of the Darlington Refurbishment project. *Ontario Regulation 53/05* requires the deferred portion of nuclear revenue requirement to be determined in a manner that makes changes in OPG's production-weighted average nuclear and hydroelectric regulated price more stable year over year. Per the regulation, the Rate Smoothing Deferral Account records interest at a long-term debt rate reflecting OPG's cost of long-term borrowing approved by the OEB, compounded annually. The regulation requires the OEB to authorize recovery of the balance in the account on a straight-line basis over a period not to exceed ten years following the end of the Darlington Refurbishment project.

Ontario Regulation 53/05 requires the OEB to determine the revenue requirements for OPG's nuclear facilities on a five-year basis for the ten-year period beginning on January 1, 2017. The portion of the approved revenue requirement recorded in the Rate Smoothing Deferral Account each year is to be determined by the OEB on a five-year basis during this ten-year period.

OPG recognizes positive amounts deferred under rate smoothing and recorded in the Rate Smoothing Deferral Account as an increase in the regulatory asset for the deferral account and an increase in revenue in the period to which the underlying approved revenue requirement relates. Negative amounts determined under rate smoothing and recorded in the Rate Smoothing Deferral Account are correspondingly recorded as a regulatory liability for the deferral account and a decrease to revenue.

OPG recorded a regulatory liability of $63 million for the Rate Smoothing Deferral Account in the fourth quarter of 2017. Inclusive of interest payable of $1 million, this amount reflects management's best estimate of the impact of rate smoothing for 2017. The estimate reflects OPG's rate smoothing proposal submitted to the OEB in January 2018 as part of the draft payment amounts order. OPG's proposal was developed in accordance with *Ontario Regulation 53/05* and the OEB's direction in the December 2017 decision.

Other Variance and Deferral Accounts

Regulatory assets

As at December 31, 2017 and 2016, regulatory assets for Other variance and deferral accounts included amounts for the Nuclear Liability Deferral Account, the Nuclear Deferral and Variance Over/Under Recovery Variance Account, the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account, the Nuclear Development Variance Account, and the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account. As at December 31, 2017, these regulatory assets also included the Fitness for Duty Deferral Account.

The Nuclear Deferral and Variance Over/Under Recovery Variance Account and the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account record any shortfall or over-recovery of the approved variance and deferral account balances due to differences between actual and forecast nuclear and regulated hydroelectric production, respectively.

The Nuclear Development Variance Account records variances between the actual non-capital costs incurred and firm financial commitments made in the course of planning and preparation for the development of proposed new nuclear generation facilities and the corresponding forecasts reflected in the regulated prices approved by the OEB.

The Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account was established pursuant to the OEB's January 2016 decision on OPG's motion that requested the OEB to review and vary parts of its November 2014 decision, including the disallowed Niagara Tunnel project capital costs. The variance account captures the revenue requirement impact of the portion of the original disallowance reversed by the OEB's January 2016 decision.

The Fitness for Duty Deferral Account was established by the OEB's December 2017 decision, effective June 1, 2017. The account records OPG's costs related to implementing the CNSC's new fitness for duty requirements.

Regulatory liabilities

As at December 31, 2017 and 2016, regulatory liabilities for Other variance and deferral accounts included amounts for the Ancillary Services Net Revenue Variance Account, the Income and Other Taxes Variance Account, the Hydroelectric Incentive Mechanism Variance Account, and the Capacity Refurbishment Variance Account. As at December 31, 2017, these regulatory liabilities also included the Rate Smoothing Deferral Account and the SR&ED ITC Variance Account.

The Ancillary Services Net Revenue Variance Account has been authorized by the OEB to capture differences between actual nuclear and regulated hydroelectric ancillary services net revenue and the forecast amounts of such revenue approved by the OEB in setting regulated prices.

The Income and Other Taxes Variance Account includes deviations in income taxes for the regulated business, from those approved by the OEB in setting regulated prices, caused by changes in tax rates and rules, as well as reassessments.

The Hydroelectric Incentive Mechanism Variance Account records a credit to customers equal to 50 percent of OPG's hydroelectric incentive mechanism revenues above a specified threshold for the regulated hydroelectric facilities.

Pursuant to *Ontario Regulation 53/05*, the Capacity Refurbishment Variance Account captures variances from the forecasts reflected in the regulated prices for capital and non-capital costs incurred to increase the output of, refurbish, or add operating capacity to one or more of the regulated facilities. The balance in the account as at December 31, 2017 includes cost variances related to the refurbishment of the Darlington GS, life extension initiatives at the Pickering GS, and other projects.

The SR&ED ITC Variance Account was established by the OEB's December 2017 decision, effective June 1, 2017. The account records the income tax expense impact for the nuclear facilities as a result of differences between actual Scientific Research & Experimental Development investment tax credits earned by OPG and such forecast amounts reflected in the regulated prices.

Variance and deferral account balances approved for disposition by the OEB's 2017 decisions included amounts recorded in the applicable Other variance and deferral accounts during 2015.

6. LONG-TERM DEBT AND NET INTEREST EXPENSE

Long-term debt consists of the following as at December 31: [1]

(millions of dollars)	2017	2016
Notes payable to the OEFC [2]		
Senior Notes		
bear interest at rates ranging from 3.12% to 5.44%; maturity dates ranging from 2018 to 2047	**3,195**	3,295
Medium Term Note Program [2]		
Senior Notes		
3.32% due 2027	**500**	-
UMH Energy Partnership [3]		
Senior Notes		
7.86% due 2041	**181**	184
PSS Generating Station Limited Partnership [4]		
Senior Notes		
4.90% due 2067	**245**	245
Lower Mattagami Energy Limited Partnership [5]		
Senior Notes		
bear interest at rates ranging from 2.40% to 5.26%; maturity dates ranging from 2021 to 2052	**1,595**	1,795
Fair Hydro Trust [6]		
Senior Notes		
2.32% due 2019	**601**	-
Other	**19**	15
	6,336	5,534
Less: bond issuance fees	**(17)**	(14)
Less: due within one year	**(398)**	(1,103)
Long-term debt	**5,921**	4,417

[1] The interest rates disclosed reflect the effective interest rate of the debt, except for the Fair Hydro Trust senior notes, which reflect the weighted average interest rate during the period the notes were outstanding from December 21, 2017 to December 31, 2017.

[2] These notes are direct unsecured obligations of OPG and rank *pari passu* with all other OPG's unsubordinated and unsecured obligations.

[3] These notes are secured by the assets of the Upper Mattagami and Hound Chute project. Principal repayments of $3 million per year are made on a semi-annual basis until maturity in 2041, at which time the remaining principal balance of $116 million becomes due.

[4] These notes are secured by the assets of the Peter Sutherland Sr. GS project, and are recourse to OPG until the recourse release date. These notes rank *pari passu* to the senior notes from the OEFC and Medium Term Note program. The notes have an interest-only feature until 2025 and will be amortized with blended semi-annual principal and interest payments thereafter until maturity in 2067, at which time the remaining principal balance of $49 million becomes due.

[5] These notes are secured by the assets of the Lower Mattagami River project, including existing and new operating facilities.

[6] The notes were issued under an $800 million two-year revolving warehouse facility and are secured by the assets of the Fair Hydro Trust.

In June 2016, OPG entered into a $700 million general corporate credit facility agreement with the OEFC, with an expiry date of December 31, 2017. During 2017, the agreement was amended, with the credit facility increased to $2,350 million and the expiry date extended to December 31, 2018. As of December 31, 2017, there were outstanding long-term borrowings of $800 million under this credit facility.

In February 2017, OPG issued senior notes payable to the OEFC totalling $200 million and maturing in February 2047. The effective interest rate and coupon interest rate of these notes was 4.12 percent. In June 2017, OPG issued senior notes payable to the OEFC totalling $100 million and maturing in June 2047. The effective interest rate and coupon interest rate of these notes was 3.65 percent. In August 2017, OPG issued senior notes payable to the OEFC totalling $100 million and maturing in August 2047. The effective interest rate and coupon interest rate of these notes was 3.86 percent. In September 2017, OPG issued senior notes payable to the OEFC totalling $400 million and maturing in September 2047. The effective interest rate and coupon interest rate of these notes was 4.07 percent.

In October 2017, OPG issued $500 million of senior notes payable under a Medium Term Note Program. The notes bear a coupon interest rate of 3.32 percent and an effective rate of 3.43 percent, payable semi-annually until maturity in October 2027. The offering was made under OPG's $2 billion short form base shelf prospectus filed in September 2017.

In 2015, PSS issued long-term debt totalling $245 million in support of the Peter Sutherland Sr. GS project. The majority of the debt proceeds, totalling $180 million, were invested in a structured deposit note with staggered maturity dates ranging from January 2016 to April 2017. As at December 31, 2017, the deposit note had matured.

In December 2017, the Fair Hydro Trust entered into an $800 million revolving warehouse facility agreement with an expiry date of December 2019. As at December 31, 2017, there were outstanding senior notes of $601 million under this facility, which were used to finance 51 percent of the Trust's funding requirement for the acquisition of the first tranche of Investment Interest from the IESO in December 2017. The outstanding balance of the revolving warehouse credit facility has been classified as long-term debt as at December 31, 2017 reflecting the contractual terms of the facility agreement. Interest incurred on this debt is recorded within earnings from Fair Hydro Trust in the consolidated statements of income.

In February 2018, the Fair Hydro Trust issued $500 million of senior notes payable with a coupon interest rate of 3.36 percent and an effective interest rate of 3.44 percent, payable semi-annually until maturity on May 15, 2033. The proceeds were used to repay the majority of the outstanding balance of the revolving warehouse facility issued by the Trust in December 2017.

The following table summarizes the net interest expense for the years ended December 31:

(millions of dollars)	**2017**	**2016**
Interest on long-term debt [1]	**289**	290
Interest on short-term debt	**7**	8
Interest income	**(9)**	(7)
Interest capitalized to property, plant and equipment and intangible assets	**(162)**	(141)
Interest related to regulatory assets and liabilities [2]	**(30)**	(30)
Net interest expense	**95**	120

1 Excludes interest on Fair Hydro Trust senior debt.

2 Includes interest to recognize the cost of financing related to regulatory accounts, as authorized by the OEB, and interest deferred in the Bruce Lease Net Revenues Variance Account, the Capacity Refurbishment Variance Account, and the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account.

Interest paid in 2017 was $258 million (2016 – $269 million), of which $251 million (2016 – $261 million) relates to interest paid on long-term debt.

The total net book value of the pledged assets of PSS, UMH Energy Partnership, Lower Mattagami Energy Limited Partnership (LME), and Lower Mattagami Limited Partnership against their debt as at December 31, 2017 was $3,645 million (2016 – $3,510 million).

The total net book value of the secured assets of the Fair Hydro Trust pledged in favour of specified creditors of the Trust, including the senior debtholders and OPG in its capacity as subordinated debtholder and Financial Services Manager of the Trust, was $1,190 million as at December 31, 2017.

7. SHORT-TERM DEBT

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches. During 2017, OPG renewed and extended the expiry date of both tranches to May 2022. There were no amounts outstanding under the bank credit facility. There was $100 million of commercial paper outstanding under OPG's commercial paper program as at December 31, 2017. The commercial paper program is used to provide short-term funding for the Company, at interest rates of approximately one percent and for less than one year in duration.

As at December 31, 2017, LME maintained a $400 million bank credit facility to support the funding requirements for the Lower Mattagami River project including support for LME's commercial paper program. The facility consists of a $300 million tranche maturing in August 2022 and a $100 million tranche maturing in August 2018. As at December 31, 2017, there was $160 million of commercial paper outstanding under LME's commercial paper program. A letter of credit of $55 million was issued in July 2017 and remains outstanding as at December 31, 2017 under the first tranche of LME's credit facility.

As at December 31, 2017, OPG maintained $25 million of short-term, uncommitted overdraft facilities and $468 million of short-term, uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other general corporate purposes. As at December 31, 2017, a total of $390 million of Letters of Credit had been issued under these facilities. This included $353 million for the supplementary pension plans, $36 million for general corporate purposes, and $1 million related to the operation of the PEC.

The Company's short-term, uncommitted credit facilities include an agreement to sell an undivided co-ownership interest in its current and future accounts receivable to an independent trust. The maximum amount of co-ownership interest that can be sold under this agreement is $150 million, expiring on November 30, 2018. As at December 31, 2017, there were Letters of Credit outstanding under this agreement of $150 million, which were issued in support of OPG's supplementary pension plans.

UMH Energy Partnership has entered into an $8 million short-term, uncommitted overdraft facility and $16 million of irrevocable, standby Letters of Credit facilities in support of its operations. As at December 31, 2017, total Letters of Credit of $15 million had been issued under these facilities.

8. NUCLEAR FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT FUNDS AND FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT LIABILITIES

The liabilities for fixed asset removal and nuclear waste management on a present value basis as at December 31, consist of the following:

(millions of dollars)	2017	2016
Liability for nuclear used fuel management	**11,970**	11,292
Liability for nuclear decommissioning and nuclear low and intermediate level waste management	**8,107**	7,811
Liability for non-nuclear fixed asset removal	**344**	381
Fixed asset removal and nuclear waste management liabilities	**20,421**	19,484

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31 are as follows:

(millions of dollars)	2017	2016
Liabilities, beginning of year	**19,484**	20,169
Increase in liabilities due to accretion [1]	**974**	1,024
Decrease in liabilities resulting from the ONFA reference plan update	**-**	(1,567)
Increase in liabilities reflecting changes to the estimated useful lives of nuclear generating stations *(Note 3)*	**188**	-
Decrease in liabilities reflecting changes in the estimate of liabilities for thermal generating stations *(Note 3)*	**(30)**	-
Increase in liabilities due to nuclear used fuel and nuclear expenses and other expenses [1]	**118**	133
Liabilities settled by expenditures on fixed asset removal and nuclear waste management during the year	**(313)**	(275)
Liabilities, end of year	**20,421**	19,484

[1] Amounts shown exclude the impact of regulatory variance and deferral accounts.

OPG's fixed asset removal and nuclear waste management liabilities are comprised of expected costs to be incurred up to and beyond termination of operations and the closure of nuclear and thermal generating facilities, and other facilities. Costs will be incurred for activities such as preparation for safe storage and safe storage of the nuclear stations, dismantlement, demolition and disposal of facilities and equipment, remediation and restoration of sites, and the ongoing and long-term management of nuclear used fuel and L&ILW material.

The determination of the accrual for fixed asset removal and nuclear waste management costs requires significant assumptions since these programs are long-term in nature. The most recent comprehensive update of the cost estimates for the Nuclear Liabilities is contained in the 2017−2021 ONFA reference plan, which was finalized and approved by the Province in the fourth quarter of 2016 (2017 ONFA Reference Plan). The update resulted in a decrease of approximately $1,570 million in the Nuclear Liabilities as at December 31, 2016.

As discussed in Note 3, OPG recognized an increase in the Nuclear Liabilities of $188 million as at December 31, 2017 to reflect the changes in the estimated useful life of the Pickering GS. The increase in the liabilities was determined by discounting the net incremental future cash flows at 2.94 percent.

For the purposes of calculating OPG's Nuclear Liabilities, as at December 31, 2017, consistent with the current accounting end-of-life assumptions, nuclear station decommissioning activities are projected to occur over approximately the next 80 years. The estimates for the Nuclear Liabilities include cash flow estimates for decommissioning the nuclear stations for approximately 40 years after stations are shut down and to 2088 for placement of used fuel into the assumed long-term disposal repository, followed by extended monitoring.

The significant assumptions underlying operational, technical, and economic factors used in the calculation of the accrued Nuclear Liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the nuclear waste programs including construction of waste disposal facilities, station end-of-life dates, waste disposal methods, financial indicators, or the technology employed, may result in significant changes to the value of the liabilities. With programs of this long-term duration and the evolving technology to handle the nuclear waste, there is a significant degree of inherent uncertainty surrounding the measurement of the costs for these programs. These costs may increase or decrease over time.

Liability for Nuclear Used Fuel Management Costs

The liability for nuclear used fuel management represents the cost of managing the highly radioactive used nuclear fuel bundles. The federal NFWA, proclaimed into force in 2002, required that Canada's nuclear fuel waste owners form a nuclear waste management organization, and that each waste owner establish a trust fund for used fuel management costs as specified in the NFWA. This organization, the NWMO, is responsible for the design and implementation of Canada's plan for the long-term management of nuclear used fuel waste. To estimate its liability for nuclear used fuel management costs, OPG has adopted an approach consistent with the Adaptive Phased Management concept approved by the Government of Canada, which assumes a deep geologic repository (DGR) as part of the long-term management of nuclear used fuel, with an in-service date of 2043 at the earliest.

Liability for Nuclear Decommissioning and L&ILW Management Costs

The liability for nuclear decommissioning and L&ILW management represents the estimated costs of decommissioning the nuclear generating stations after the end of their service lives, as well as the cost of managing L&ILW generated by the stations. The significant assumptions used in estimating future nuclear fixed asset removal costs include a deferred dismantlement basis for decommissioning of the stations, whereby the reactors will be de-watered and de-fuelled immediately after the station has ceased operations and thereafter will remain in a safe state condition for a 30-year period, prior to an approximate 10-year dismantlement period.

The life cycle costs of L&ILW management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as the costs of the ultimate long-term management of these wastes. The current assumptions used to establish the accrued costs for the management of L&ILW include an L&ILW DGR to be owned and operated by OPG. Agreement was previously reached with local municipalities for OPG to develop a DGR for the long-term management of L&ILW adjacent to OPG's Western Waste Management Facility in Kincardine, Ontario. The environmental assessment process for the proposed DGR is continuing.

Liability for Non-Nuclear Fixed Asset Removal Costs

The liability for non-nuclear fixed asset removal primarily represents the estimated costs of decommissioning OPG's thermal generating stations at the end of their services lives. The liability is based on third-party cost estimates following a review of plant sites and an assessment of required clean-up and restoration activities. For the purposes of measuring the non-nuclear fixed asset removal liability, thermal asset removal activities are assumed to take place approximately over the next one to 15 years.

As discussed in Note 3, OPG updated the fixed asset removal liabilities for the thermal generating stations as at December 31, 2017. The resulting decrease in the liabilities of $30 million as at December 31, 2017 was determined by discounting the net decrease in future cash flows using weighted average discount rates ranging from 3.41 percent to 5.58 percent reflected in the existing liability.

Ontario Nuclear Funds Agreement

In accordance with the ONFA, OPG sets aside and invests funds that are held in segregated custodian and trustee accounts specifically for discharging its life cycle obligation for nuclear decommissioning and long-term nuclear waste management. The Used Fuel Segregated Fund and the Decommissioning Segregated Fund were established under the ONFA for this purpose. OPG makes contributions to the Nuclear Segregated Funds based on the approved ONFA reference plan in effect. ONFA reference plans are subject to approval by the Province.

Since inception, OPG has been making quarterly payments to the Used Fuel Segregated Fund over the assumed lives of its nuclear generating stations, as specified in the ONFA, including contributions to the Ontario NFWA Trust (NFWA Trust) established by OPG pursuant to the NFWA. The NFWA Trust forms part of the Used Fuel Segregated Fund, with any OPG contributions to the Used Fuel Segregated Fund, as well as any portion of the fund currently not in the NFWA Trust, being able to be applied towards the NFWA Trust's annual contribution requirements pursuant to the NFWA. Required funding of the Used Fuel Segregated Fund for 2017 was nil (2016 – $150 million). ONFA requirements have resulted in the majority of the underlying used fuel management obligation being funded through OPG contributions over the initial estimated useful lives of the nuclear generating stations assumed in the ONFA, which did not reflect subsequent extensions to the nuclear station lives to reflect refurbishment and life extension decisions.

OPG has not been required to make contributions to the Decommissioning Segregated Fund, which was fully funded at its inception through an initial contribution made by the OEFC, an agency of the Province, and, taking into account asset performance and changes in underlying funding obligation over time, at the time of every subsequent approved ONFA reference plan.

The 2017 ONFA Reference Plan was approved by the Province in December 2016, with an effective date of January 1, 2017. Based on the funded status of the Used Fuel Segregated Fund and the Decommissioning Segregated Fund reflecting the life cycle liability estimates per the 2017 ONFA Reference Plan, no overall contributions to either fund are currently required starting in 2017. Contributions may be required in the future should either or both of the funds be in an underfunded position when a new reference plan is prepared.

The *Nuclear Safety and Control Act* (Canada) requires OPG to have sufficient funds available to discharge its existing nuclear waste management and nuclear facilities decommissioning obligations. As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the CNSC since 2003, on behalf of OPG. The Provincial Guarantee provides for any shortfall between the CNSC consolidated financial guarantee requirement and the value of the Nuclear Segregated Funds. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount, if any, of the Provincial Guarantee. The value of the Provincial Guarantee amount in effect through to the end of 2017 was $1,551 million. Based on this guarantee amount, OPG paid a guarantee fee of $8 million to the Province for each of 2017 and 2016.

The investments in the Nuclear Segregated Funds include a diversified portfolio of equities and fixed income securities that are invested across geographic markets, as well as investments in infrastructure, real estate, and agriculture. The Nuclear Segregated Funds are invested to fund long-term liability requirements and, as such, the portfolio asset mix is structured to achieve the required return over a long-term horizon. While short-term fluctuations in market value will occur, managing the long-term return of the Nuclear Segregated Funds remains the primary goal. OPG jointly oversees the investment management of the Nuclear Segregated Funds with the Province.

Decommissioning Segregated Fund

Under the ONFA, OPG is wholly responsible for cost estimate changes and investment returns in the Decommissioning Segregated Fund. As at December 31, 2017 and 2016, the Decommissioning Segregated Fund was in an overfunded position.

Upon termination of the ONFA, the Province has the sole right to any excess funds in the Decommissioning Segregated Fund, which is the excess of the fair market value of the fund's assets over the underlying estimated future costs, as per the most recently approved ONFA reference plan. Accordingly, when the Decommissioning Segregated Fund is overfunded, OPG limits the fund earnings recognized in the consolidated financial statements by recording an amount due to the Province, such that the asset recognized for the fund on the consolidated balance sheet is equal to the cost estimate of the liability based on the most recently approved ONFA reference plan. Additionally, OPG recognizes the portion of the surplus that it may direct to the Used Fuel Segregated Fund, which is possible when the surplus in the Decommissioning Segregated Fund is such that the underlying liabilities, as defined by the most recently approved ONFA reference plan, are at least 120 percent funded. In those circumstances, OPG may direct, at the time a new reference plan is approved, up to 50 percent of the surplus over 120 percent to the Used Fuel Segregated Fund, with the OEFC entitled to a distribution of an equal amount. Therefore, when the Decommissioning Segregated Fund is at least 120 percent funded, OPG recognizes 50 percent of the excess greater than 120 percent in income, up to the amount by which the Used Fuel Segregated Fund is underfunded. Based on the 2017 ONFA Reference Plan, the Used Fuel Segregated Fund was in a marginally overfunded position as at December 31, 2017 and 2016. As a result, OPG recognized a due to the Province amount such that the Decommissioning Segregated Fund asset on the consolidated balance sheet as at December 31, 2017 and 2016 was limited to the value of the underlying funding liability per the 2017 ONFA Reference Plan. This payable to the Province may be reduced in subsequent periods in the event that the Decommissioning Segregated Fund earns less than its target rate of return, a new ONFA reference plan is approved with a higher underlying funding liability, or the Used Fuel Segregated Fund changes to an underfunded status. When the Decommissioning Segregated Fund is underfunded, the earnings on the fund reflect actual fund returns based on the market value of the assets.

When the Decommissioning Segregated Fund is in an overfunded status of less than 120 percent, OPG recognizes its annual earnings on the fund at 3.25 percent plus the long-term Ontario Consumer Price Index (CPI) specified in the most recently approved ONFA reference plan, which is the rate of growth in the underlying funding liability. The same treatment is applied to the Decommissioning Segregated Fund when it is in an overfunded status of greater than 120 percent, if the Used Fuel Segregated Fund is fully funded.

<u>Used Fuel Segregated Fund</u>

OPG is responsible for cost increases in the funding liability for used fuel waste management under the ONFA, subject to specified graduated liability thresholds, pursuant to which the Province limits OPG's total financial exposure for the first 2.23 million nuclear used fuel bundles at approximately $15.7 billion in present value dollars as at December 31, 2017. The graduated liability thresholds do not apply to used fuel bundles beyond the 2.23 million threshold.

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Segregated Fund at 3.25 percent plus the change in the Ontario CPI, as defined by ONFA, for funding related to the first 2.23 million used fuel bundles, (committed return). OPG recognizes the committed return on the Used Fuel Segregated Fund as earnings on the Nuclear Segregated Funds. The difference between the committed return and the actual market return determined based on the fair value of the fund assets related to the first 2.23 million used fuel bundles is recorded as due to or due from the Province. This amount due to or due from the Province represents the amount that would be paid to or received from the Province if the committed return were to be settled as at the consolidated balance sheets date. The 2.23 million threshold represents the estimated total life cycle fuel bundles based on the initial estimated useful lives of the nuclear stations assumed in the ONFA.

As prescribed under the ONFA, OPG's contributions for fuel bundles in excess of 2.23 million are not subject to the rate of return guaranteed by the Province, and earn a return based on changes in the market value of the assets of the Used Fuel Segregated Fund.

If there is a surplus in the Used Fuel Segregated Fund such that the liabilities, as defined by the most recently approved ONFA reference plan, are at least 110 percent funded, the Province, has the right, at any time, to access the excess amount greater than 110 percent. Upon termination of the ONFA, the Province is entitled to any surplus in the fund, which is the excess of the fair market value of the Used Fuel Segregated Fund assets over the estimated future costs, as per the most recently approved ONFA reference plan. Neither OPG nor the Province has a right to direct any amounts from the Used Fuel Segregated Fund to the Decommissioning Segregated Fund. Therefore, when the Used Fuel Segregated Fund is overfunded, OPG limits the earnings it recognizes by recording an amount due to the Province, such that the asset recognized for the fund on the consolidated balance sheets is equal to the cost estimate of the funding liability per the most recently approved ONFA reference plan. This results in OPG recognizing annual earnings on the fund at 3.25 percent plus the long-term Ontario CPI specified in the most recently approved ONFA reference plan, which is the rate of growth in the underlying funding liability, when the fund is overfunded.

As at December 31, 2017 and 2016, the Used Fuel Segregated Fund was marginally overfunded based on the 2017 ONFA Reference Plan, and OPG recognized a due to the Province amount such that the asset recognized for the fund was limited to the value of the underlying funding liability. This payable to the Province may be reduced in subsequent periods in the event that the Used Fuel Segregated Fund earns less than its target rate of return or in the event that a new ONFA reference plan is approved with a higher underlying funding liability.

Nuclear Segregated Funds

The nuclear fixed asset removal and nuclear waste management funds as at December 31 consist of the following:

	Fair Value	
(millions of dollars)	**2017**	**2016**
Decommissioning Segregated Fund	**9,099**	8,317
Due to Province – Decommissioning Segregated Fund	**(1,933)**	(1,477)
	7,166	6,840
Used Fuel Segregated Fund [1]	**12,087**	11,082
Due to Province – Used Fuel Segregated Fund	**(2,529)**	(1,938)
	9,558	9,144
Total Nuclear Segregated Funds	**16,724**	15,984
Less: current portion	**23**	24
Non-current Nuclear Segregated Funds	**16,701**	15,960

[1] The NFWA Trust represents $3,882 million as at December 31, 2017 (2016 – $3,688 million) of the Used Fuel Segregated Fund on a fair value basis.

The fair value of the securities invested in the Nuclear Segregated Funds as at December 31 is as follows:

	Fair Value	
(millions of dollars)	**2017**	**2016**
Cash and cash equivalents and short-term investments	**227**	354
Real assets	**2,357**	1,989
Pooled funds	**1,713**	1,329
Marketable equity securities	**10,457**	9,503
Fixed income securities	**6,405**	6,181
Net receivables/payables	**27**	43
	21,186	19,399
Due to Province	**(4,462)**	(3,415)
	16,724	15,984

The historical cost, gross unrealized aggregate appreciation and depreciation of investment, gross unrealized foreign exchange gains, and fair value of the Nuclear Segregated Funds as at December 31, 2017 and 2016 are summarized as follows:

	2017		
(millions of dollars)	**Decommissioning Segregated Fund**	**Used Fuel Segregated Fund**	**Total**
Historical cost	**7,327**	**9,902**	**17,229**
Gross unrealized gains (losses)			
Aggregate appreciation	**1,789**	**2,188**	**3,977**
Aggregate depreciation	**(134)**	**(180)**	**(314)**
Foreign exchange	**117**	**177**	**294**
	9,099	**12,087**	**21,186**
Due to Province	**(1,933)**	**(2,529)**	**(4,462)**
Total fair value	**7,166**	**9,558**	**16,724**
Less: current portion	**5**	**18**	**23**
Non-current fair value	**7,161**	**9,540**	**16,701**

	2016		
(millions of dollars)	**Decommissioning Segregated Fund**	**Used Fuel Segregated Fund**	**Total**
Historical cost	6,896	9,385	16,281
Gross unrealized gains (losses)			
Aggregate appreciation	1,326	1,564	2,890
Aggregate depreciation	(165)	(222)	(387)
Foreign exchange	260	355	615
	8,317	11,082	19,399
Due to Province	(1,477)	(1,938)	(3,415)
Total fair value	6,840	9,144	15,984
Less: current portion	8	16	24
Non-current fair value	6,832	9,128	15,960

Net realized and unrealized gains or losses from investments for the years ended December 31, 2017 and 2016 are summarized as follows:

(millions of dollars)	2017 Decommissioning Segregated Fund	2017 Used Fuel Segregated Fund	2017 Total
Net realized gains			
Realized gains excluding foreign exchange	**198**	**245**	**443**
Realized foreign exchange gains	**54**	**65**	**119**
Net realized gains	**252**	**310**	**562**
Net unrealized gains			
Unrealized gains excluding foreign exchange	**494**	**666**	**1,160**
Unrealized foreign exchange losses	**(143)**	**(178)**	**(321)**
Net unrealized gains	**351**	**488**	**839**

(millions of dollars)	2016 Decommissioning Segregated Fund	2016 Used Fuel Segregated Fund	2016 Total
Net realized gains			
Realized gains excluding foreign exchange	84	180	264
Realized foreign exchange gains	30	41	71
Net realized gains	114	221	335
Net unrealized gains			
Unrealized gains excluding foreign exchange	360	442	802
Unrealized foreign exchange losses	(165)	(216)	(381)
Net unrealized gains	195	226	421

The change in the Nuclear Segregated Funds for the years ended December 31 is as follows:

(millions of dollars)	Fair Value 2017	Fair Value 2016
Decommissioning Segregated Fund, beginning of year	**6,840**	6,549
Increase in fund due to return on investments	**807**	505
Decrease in fund due to reimbursement of eligible expenditures	**(25)**	(22)
Increase in due to Province	**(456)**	(192)
Decommissioning Segregated Fund, end of year	**7,166**	6,840
Used Fuel Segregated Fund, beginning of year	**9,144**	8,587
Increase in fund due to contributions made	**-**	150
Increase in fund due to return on investments	**1,059**	690
Decrease in fund due to reimbursement of eligible expenditures	**(54)**	(48)
Increase in due to Province	**(591)**	(235)
Used Fuel Segregated Fund, end of year	**9,558**	9,144

The earnings from the Nuclear Segregated Funds during 2017 and 2016 were impacted by the Bruce Lease Net Revenues Variance Account authorized by the OEB. The earnings on the Nuclear Segregated Funds for the years ended December 31 are as follows:

(millions of dollars)	**2017**	**2016**
Decommissioning Segregated Fund	**351**	313
Used Fuel Segregated Fund	**468**	455
Bruce Lease Net Revenues Variance Account	**(18)**	(22)
Earnings on nuclear fixed asset removal and nuclear waste management funds	**801**	746

9. INCOME TAXES

OPG follows the liability method of accounting for income taxes. The Company records an offsetting regulatory asset or regulatory liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers for generation from OPG's regulated facilities.

A reconciliation between the statutory and the effective rate of income taxes is as follows:

(millions of dollars)	**2017**	**2016**
Income before income taxes	**1,090**	621
Combined Canadian federal and provincial statutory enacted income tax rates	**26.5%**	26.5%
Statutory income tax rates applied to accounting income	**289**	165
(Decrease) increase in income taxes resulting from:		
Income tax (recovery) expense deferred in regulatory assets and regulatory liabilities	**(20)**	65
Scientific Research and Experimental Development investment tax credits	**(47)**	(48)
Manufacturing and processing credit	**(16)**	(9)
Other	**3**	(5)
	(80)	3
Income tax expense	**209**	168
Effective rate of income taxes	**19.2%**	27.0%

Significant components of the income tax expense are presented in the table below:

(millions of dollars)	**2017**	**2016**
Current income tax expense	**190**	204
Deferred income tax expense (recovery)	**19**	(36)
Income tax expense	**209**	168

The income tax effects of temporary differences that give rise to deferred income tax assets and liabilities as at December 31 are as follows:

(millions of dollars)	2017	2016
Deferred income tax assets:		
Fixed asset removal and nuclear waste management liabilities	**5,096**	4,861
Other assets and liabilities	**2,057**	1,813
	7,153	6,674
Deferred income tax liabilities:		
Property, plant and equipment and intangible assets	**(1,923)**	(1,807)
Nuclear fixed asset removal and nuclear waste management funds	**(4,181)**	(3,996)
Other assets and liabilities	**(1,928)**	(1,700)
	(8,032)	(7,503)
Net deferred income tax liabilities	**(879)**	(829)

During 2017, OPG recorded an increase in the deferred income tax liability for income taxes that is expected to be recovered through regulated prices charged to customers of $59 million (2016 – $46 million). Since these deferred income taxes are expected to be recovered through future regulated prices, OPG recorded a corresponding increase to the regulatory asset for deferred income taxes. As a result, the deferred income tax expense for 2017 and 2016 was not impacted.

The following table summarizes the deferred income tax liabilities recorded for the rate regulated operations that are expected to be recovered through future regulated prices:

(millions of dollars)	2017	2016
January 1:		
Deferred income tax liabilities on temporary differences related to regulated operations	**627**	592
Deferred income tax liabilities on temporary differences related to the regulatory asset for the deferred income tax liabilities	**211**	200
	838	792
Changes during the year:		
Increase in deferred income tax liabilities on temporary differences related to regulated operations	**44**	35
Increase in deferred income tax liabilities on temporary differences related to the regulatory asset for the deferred income tax liabilities	**15**	11
Balance as at December 31	**897**	838

The tax benefit associated with an income tax position is recognized only when it is more likely than not that such a position will be sustained upon examination by the taxing authorities based on the technical merits of the position. The current and deferred income tax benefit is equal to the largest amount, considering possible settlement outcomes, that is greater than 50 percent likely of being realized upon settlement with the taxing authorities.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(millions of dollars)	2017	2016
Unrecognized tax benefits, beginning of year	**77**	72
Additions based on tax positions related to the current year	**21**	19
Additions for tax positions of prior years	**-**	2
Reductions for tax positions of prior years	**(20)**	(16)
Unrecognized tax benefits, end of year	**78**	77

As at December 31, 2017, OPG's unrecognized tax benefits were $78 million (2016 – $77 million), excluding interest and penalties, all of which, if recognized, would affect OPG's effective tax rate. Changes in unrecognized tax benefits over the next 12 months cannot be predicted with certainty.

OPG recognizes interest and penalties related to unrecognized tax benefits as income tax expense. As at December 31, 2017, OPG had recorded interest on unrecognized tax benefits of $8 million (2016 – $8 million). OPG considers its significant tax jurisdiction to be Canada. OPG remains subject to income tax examination for years after 2013.

OPG paid $195 million in income taxes, net of tax refunds, during 2017 (2016 – $98 million).

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in the balance of each component of accumulated other comprehensive loss (AOCL), net of income taxes, are as follows:

	2017			
(millions of dollars)	**Unrealized Gains and Losses on Cash Flow Hedges**	**Pension and OPEB**	**Available-for-sale Securities**	**Total**
AOCL, beginning of year	**(87)**	**(207)**	**(1)**	**(295)**
Actuarial loss on remeasurement of liabilities for pension and OPEB	**-**	**(23)**	**-**	**(23)**
Unrealized loss on available-for-sale securities	**-**	**-**	**(8)**	**(8)**
Amounts reclassified from AOCL	**18**	**10**	**-**	**28**
Other comprehensive income (loss) for the year	**18**	**(13)**	**(8)**	**(3)**
Reclassification of non-controlling interest on change in ownership interest *(Note 22)*	**3**	**-**	**-**	**3**
AOCL, end of year	**(66)**	**(220)**	**(9)**	**(295)**

	2016			
(millions of dollars)	**Unrealized Gains and Losses on Cash Flow Hedges**	**Pension and OPEB**	**Available-for-sale Securities**	**Total**
AOCL, beginning of year	(106)	(213)	-	(319)
Actuarial loss on remeasurement of liabilities for pension and OPEB	-	(6)	-	(6)
Unrealized loss on available-for-sale securities	-	-	(1)	(1)
Amounts reclassified from AOCL	19	12	-	31
Other comprehensive income (loss) for the year	19	6	(1)	24
AOCL, end of year	(87)	(207)	(1)	(295)

The significant amounts reclassified out of each component of AOCL, net of income taxes, during December 31, 2017 and 2016 are as follows:

	Amount Reclassified from AOCL		
(millions of dollars)	**2017**	**2016**	**Statement of Income Line Item**
Amortization of losses from cash flow hedges			
Losses	**20**	21	Net interest expense
Income tax recovery	**(2)**	(2)	Income tax expense
	18	19	
Amortization of amounts related to pension and OPEB			
Actuarial losses and past service costs	**13**	16	See (1) below
Income tax recovery	**(3)**	(4)	Income tax expense
	10	12	
Total reclassifications for the year	**28**	31	

[1] These AOCL components are included in the computation of pension and OPEB costs (see Note 11 for additional details).

11. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Fund Assets

The OPG registered pension fund investment guidelines are stated in an approved Statement of Investment Policies and Procedures (SIPP). The SIPP is reviewed and approved by the Audit and Risk Committee of OPG's Board of Directors at least annually and includes a discussion of investment objectives and expectations, asset mix and rebalancing, and the basis for measuring the performance of the pension fund assets.

In accordance with the SIPP, investment allocation decisions are made with a view to achieve OPG's objective of meeting obligations of the plan as they come due. The pension fund assets are invested in four categories of asset classes. The first category is liability hedging assets, which are intended to hedge the inflation and interest rate sensitivity of the plan liabilities. The second category is return enhancing assets, which are intended to obtain higher investment returns compared to the returns expected for liability hedging assets. The third category is real assets, which offer exposure to the combined characteristics of liability hedging and return enhancing assets. The fourth category is return diversifying strategies, which are intended to improve the overall return of the pension fund while mitigating the downside market risk.

To achieve the above objective, OPG has adopted the following target strategic asset allocation:

	Target
Asset Class	
Liability Hedging Assets	34%
Return Enhancing Assets	31%
Real Assets	20%
Return Diversifying Assets	15%

The plan may use derivatives for risk management or strategic purposes, where such activity is consistent with the plan's investment objectives.

<u>Significant Concentrations of Risk in Fund Assets</u>

The assets of the pension fund are diversified to limit the impact of any individual investment. The pension fund is diversified across multiple asset classes. Fixed income securities are diversified among Canadian government bonds, government agency bonds, real return bonds, and corporate bonds. Equity securities are diversified across

Canadian, US, and Global stocks. There are also real estate, infrastructure, and agriculture portfolios that represent approximately 12 percent of the total pension fund assets as at December 31, 2017. Investments in the above asset classes are further diversified across funds, investment managers, strategies, vintages, sectors and geographies, depending on the specific characteristics of each asset class.

Credit risk with respect to the pension fund's fixed income securities is managed by risk tolerance guidelines, which require that fixed income securities comply with various investment constraints that ensure prudent diversification and prescribed minimum required credit rating quality. Credit risk, as it relates to the pension fund's derivatives, is managed through the use of International Swap and Derivatives Association documentation and counterparty management performed by the fund's investment managers.

Risk Management

Risk management oversight with respect to the pension fund includes, but is not limited to, the following activities:

- Periodic asset/liability management and strategic asset allocation studies
- Monitoring of funding levels and funding ratios
- Monitoring compliance with asset allocation guidelines and investment management agreements
- Monitoring asset class performance against asset class benchmarks
- Monitoring investment manager performance against benchmarks
- Monitoring of risk tolerance guidelines

Expected Rate of Return on Plan Assets

The expected rate of return on plan assets is based on the fund's asset allocation, as well as the return expectations considering long-term risks and returns associated with each asset class within the plan portfolio. The asset management decisions consider the economic liabilities of the plan.

Fair Value Measurements

OPG is required to classify fair value measurements using a fair value hierarchy. This hierarchy groups financial instruments into three levels, based on the significance of inputs used in measuring the fair value of the assets and liabilities. Refer to Note 13 for a detailed discussion of fair value measurements and the fair value hierarchy.

The following tables present pension plan assets measured at fair value in accordance with the fair value hierarchy:

(millions of dollars)	December 31, 2017 Level 1	Level 2	Level 3	Total
Cash and cash equivalents	**377**	**-**	**-**	**377**
Short-term investments	**-**	**9**	**-**	**9**
Fixed income				
Corporate debt securities	**-**	**521**	**-**	**521**
Government bonds	**-**	**3,476**	**-**	**3,476**
Equities				
Canadian	**1,441**	**329**	**-**	**1,770**
US	**1,551**	**-**	**-**	**1,551**
Global	**1,681**	**-**	**-**	**1,681**
Pooled funds	**459**	**105**	**-**	**564**
Other	**15**	**-**	**-**	**15**
	5,524	**4,440**	**-**	**9,964**
Investments measured at NAV [1]				**4,221**
				14,185 [2]

[1] Represents investments measured at fair value using Net Asset Value (NAV) as a practical expedient, which have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to the total fair value of plan assets presented in tables following.

[2] The table above excludes pension fund receivables and payables.

(millions of dollars)	December 31, 2016 Level 1	Level 2	Level 3	Total
Cash and cash equivalents	690	-	-	690
Fixed income				
Corporate debt securities	-	407	-	407
Government bonds	-	3,483	-	3,483
Equities				
Canadian	1,449	291	-	1,740
US	1,495	-	-	1,495
Global	1,643	-	-	1,643
Pooled funds	118	413	-	531
	5,395	4,594	-	9,989
Investments measured at NAV [1]				3,504
				13,493 [2]

[1] Represents investments measured at fair value using NAV as a practical expedient, which have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to the total fair value of plan assets presented in tables following.

[2] The table above excludes pension fund receivables and payables.

Plan Costs and Liabilities

Details of OPG's pension and OPEB obligations, pension fund assets and costs, together with the key assumptions used in determining these amounts, are presented in the following tables:

	Registered and Supplementary Pension Plans		Other Post-Employment Benefits	
	2017	2016	2017	2016
Weighted Average Assumptions – Benefit Obligations at Year-End				
Discount rate for projected benefit obligation	**3.57 %**	3.90 %	**3.60 %**	3.94 %
Salary schedule escalation rate - initial rate [1]	**1.90 %**	1.80 %	**1.90 %**	1.80 %
- thereafter	**2.50 %**	2.50 %	**2.50 %**	2.50 %
Rate of cost of living increase to pensions	**2.00 %**	2.00 %	**n/a**	n/a
Initial health care trend rate	**n/a**	n/a	**5.80 %**	5.90 %
Ultimate health care trend rate	**n/a**	n/a	**4.32 %**	4.32 %
Year ultimate health care trend rate reached	**n/a**	n/a	**2030**	2030
Rate of increase in disability benefits	**n/a**	n/a	**2.00 %**	2.00 %

[1] Per year to December 31, 2021.

	Registered and Supplementary Pension Plans		Other Post-Employment Benefits	
	2017	2016	2017	2016
Weighted Average Assumptions – Costs for the Year				
Expected return on plan assets, net of expenses	**6.00 %**	6.00 %	**n/a**	n/a
Discount rate for current service cost	**4.15 %**	4.10 %	**4.03 %**	4.13 %
Discount rate for interest on projected benefit obligation	**3.37 %**	4.10 %	**3.53 %**	4.13 %
Discount rate for interest on current service cost	**3.95 %**	4.10 %	**3.85 %**	4.13 %
Salary schedule escalation rate - initial rate [1]	**1.80 %**	1.60 %	**1.80 %**	1.60 %
- thereafter	**2.50 %**	2.50 %	**2.50 %**	2.50 %
Rate of cost of living increase to pensions	**2.00 %**	2.00 %	**n/a**	n/a
Initial health care trend rate	**n/a**	n/a	**5.90 %**	6.00 %
Ultimate health care trend rate	**n/a**	n/a	**4.32 %**	4.33 %
Year ultimate health care trend rate reached	**n/a**	n/a	**2030**	2030
Rate of increase in disability benefits	**n/a**	n/a	**2.00 %**	2.00 %
Expected average remaining service life for employees (years)	**12**	12	**13**	13

[1] Per year to December 31, 2021.

(millions of dollars)	Registered Pension Plans 2017	Registered Pension Plans 2016	Supplementary Pension Plans 2017	Supplementary Pension Plans 2016	Other Post-Employment Benefits 2017	Other Post-Employment Benefits 2016
Components of Cost Recognized for the Year						
Current service costs	**274**	277	**7**	7	**67**	67
Interest on projected benefit obligation	**548**	634	**11**	12	**106**	133
Expected return on plan assets, net of expenses	**(766)**	(734)	**-**	-	**-**	-
Amortization of past service costs [1]	**-**	-	**-**	-	**1**	1
Amortization of net actuarial loss [1]	**183**	192	**6**	4	**-**	19
Recognition of LTD net actuarial loss (gain)	**-**	-	**-**	-	**11**	(52)
Costs recognized [2]	**239**	369	**24**	23	**185**	168

[1] The amortization of past service costs and net actuarial loss was recognized as an increase to OCI. This increase was partially offset by the impact of the Pension and OPEB Regulatory Asset discussed in Note 5.

[2] Excludes the impact of regulatory variance and deferral accounts discussed in Note 5.

Total benefit costs, including the impact of the Pension & OPEB Cash Payment Variance Account and the Pension & OPEB Cash Versus Accrual Differential Deferral Account, for the years ended December 31 are as follows:

(millions of dollars)	2017	2016
Registered pension plans	**239**	369
Supplementary pension plans	**24**	23
Other post-employment benefits	**185**	168
Pension & OPEB Cash Payment Variance Account *(Note 5)*	**81**	86
Pension & OPEB Cash Versus Accrual Differential Deferral Account *(Note 5)*	**(117)**	(182)
Pension and other post-employment benefit costs	**412**	464

The pension and OPEB obligations and the pension fund assets measured as at December 31 are as follows:

(millions of dollars)	Registered Pension Plans 2017	Registered Pension Plans 2016	Supplementary Pension Plans 2017	Supplementary Pension Plans 2016	Other Post-Employment Benefits 2017	Other Post-Employment Benefits 2016
Change in Plan Assets						
Fair value of plan assets at beginning of year	**13,506**	13,160	**-**	-	**-**	-
Contributions by employer	**214**	255	**14**	15	**94**	93
Contributions by employees	**97**	85	**-**	-	**-**	-
Actual return on plan assets, net of expenses	**1,207**	714	**-**	-	**-**	-
Benefit payments	**(761)**	(708)	**(14)**	(15)	**(94)**	(93)
Fair value of plan assets at end of year	**14,263**	13,506	**-**	-	**-**	-
Change in Projected Benefit Obligations						
Projected benefit obligations at beginning of year	**16,199**	15,475	**336**	299	**2,992**	3,188
Employer current service costs	**274**	277	**7**	7	**67**	67
Contributions by employees	**97**	85	**-**	-	**-**	-
Interest on projected benefit obligation	**548**	634	**11**	12	**106**	133
Benefit payments	**(761)**	(708)	**(14)**	(15)	**(94)**	(93)
Net actuarial loss (gain)	**987**	436	**16**	33	**119**	(303)
Projected benefit obligations at end of year	**17,344**	16,199	**356**	336	**3,190**	2,992
Funded status – deficit at end of year	**(3,081)**	(2,693)	**(356)**	(336)	**(3,190)**	(2,992)

The following table provides the pension and OPEB liabilities and their classification on the consolidated balance sheets as at December 31:

(millions of dollars)	Registered Pension Plans 2017	Registered Pension Plans 2016	Supplementary Pension Plans 2017	Supplementary Pension Plans 2016	Other Post-Employment Benefits 2017	Other Post-Employment Benefits 2016
Current liabilities	**-**	-	**(14)**	(17)	**(98)**	(95)
Non-current liabilities	**(3,081)**	(2,693)	**(342)**	(319)	**(3,092)**	(2,897)
Total liabilities	**(3,081)**	(2,693)	**(356)**	(336)	**(3,190)**	(2,992)

The accumulated benefit obligations for the registered pension plans and supplementary pension plans as at December 31, 2017 are $16,005 million and $333 million, respectively (2016 – $14,909 million and $293 million, respectively). The accumulated benefit obligation differs from the projected benefit obligation in that the accumulated benefit obligation includes no assumption about future compensation levels.

The following table provides the components of OPG's OCI related to pension and OPEB plans and the offsetting Pension and OPEB Regulatory Asset, discussed in Note 5, for the years ended December 31, on a pre-tax basis:

(millions of dollars)	Registered Pension Plans 2017	Registered Pension Plans 2016	Supplementary Pension Plans 2017	Supplementary Pension Plans 2016	Other Post-Employment Benefits 2017	Other Post-Employment Benefits 2016
Changes in plan assets and benefit obligations recognized in OCI						
Current year net actuarial loss (gain)	**546**	456	**16**	33	**108**	(251)
Amortization of net actuarial loss	**(183)**	(192)	**(6)**	(4)	**-**	(19)
Amortization of past service costs	**-**	-	**-**	-	**(1)**	(1)
Total decrease (increase) in OCI	**363**	264	**10**	29	**107**	(271)
Less: increase (decrease) in Pension and OPEB Regulatory Asset *(Note 5)*	**352**	253	**9**	27	**102**	(250)
Net decrease (increase) in OCI (pre-tax)	**11**	11	**1**	2	**5**	(21)

The following table provides the components of OPG's AOCL and the offsetting Pension and OPEB Regulatory Asset that have not yet been recognized as components of benefit costs as at December 31, on a pre-tax basis:

(millions of dollars)	Registered Pension Plans 2017	Registered Pension Plans 2016	Supplementary Pension Plans 2017	Supplementary Pension Plans 2016	Other Post-Employment Benefits 2017	Other Post-Employment Benefits 2016
Unamortized amounts recognized in AOCL						
Past service costs	**-**	-	**-**	-	**4**	5
Net actuarial loss	**3,650**	3,287	**116**	106	**378**	270
Total recognized in AOCL	**3,650**	3,287	**116**	106	**382**	275
Less: Pension and OPEB Regulatory Asset *(Note 5)*	**3,391**	3,039	**109**	100	**355**	253
Net recognized in AOCL (pre-tax)	**259**	248	**7**	6	**27**	22

The following table provides the components of OPG's AOCL and the offsetting Pension and OPEB Regulatory Asset as at December 31 (included in the table above) that are expected to be amortized as components of benefit costs and recognized as increases to OCI and reductions in the Pension and OPEB Regulatory Asset in 2018, on a pre-tax basis:

(millions of dollars)	Registered Pension Plans	Supplementary Pension Plans	Other Post-Employment Benefits
Past service costs	**-**	**-**	**1**
Net actuarial loss	**198**	**7**	**6**
Total increase in OCI	**198**	**7**	**7**
Less: estimated decrease in Pension and OPEB Regulatory Asset	**184**	**6**	**6**
Net increase in OCI (pre-tax)	**14**	**1**	**1**

The most recently filed actuarial valuation, for funding purposes, of the OPG registered pension plan, as at January 1, 2017, was filed with the FSCO in September 2017. The next filed funding valuation must have an effective date no later than January 1, 2020. For 2018, OPG's required contribution to its registered pension plan is expected to be $215 million. The amount of OPG's additional voluntary contribution, if any, is revisited from time to time. OPG will continue to assess the requirements for contributions to the pension plan.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling $353 million as at December 31, 2017 (2016 – $349 million).

Estimated future benefit payments to participants in the pension and OPEB plans based on the assumptions used to measure the benefit obligations as at December 31, 2017 are as follows:

(millions of dollars)	**Registered Pension Plans**	**Supplementary Pension Plans**	**Other Post-Employment Benefits**
2018	676	15	98
2019	696	15	101
2020	722	15	105
2021	747	16	108
2022	764	16	111
2023 through 2027	4,397	86	633

A one percent increase or decrease in the health care trend rate would result in an increase in the current service and interest components of the 2017 OPEB costs of $40 million (2016 – $45 million) or a decrease in the service and interest components of the 2017 OPEB costs of $29 million (2016 – $33 million). A one percent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation as at December 31, 2017 of $592 million (2016 – $560 million) or a decrease in the projected OPEB obligation as at December 31, 2017 of $451 million (2016 – $426 million).

12. RISK MANAGEMENT AND DERIVATIVES

OPG is exposed to risks related to changes in market interest rates on debt expected to be issued in the future and movements in foreign currency that affect the Company's assets, liabilities, and forecasted transactions. Select derivative instruments are used to manage such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

Interest rate risk is the risk that the value of assets and liabilities can change due to movements in related interest rates. Interest rate risk for OPG arises with the need to refinance existing debt and/or undertake new financing. The management of these risks includes using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated financing.

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate as fuels and certain supplies and services purchased for generating stations and major development projects are denominated in, or tied to, US dollars. OPG enters into foreign exchange derivatives and agreements with major financial institutions, when appropriate, in order to manage the Company's exposure to foreign currency movements.

The majority of OPG's revenues are derived from sales through the IESO administered spot market. Market participants in the IESO spot market provide collateral in accordance with the IESO prudential support requirements to cover funds that they might owe to the market. Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure is to a diverse group of generally high quality counterparties. OPG's allowance for doubtful accounts as at December 31, 2017 was less than $1 million.

The fair value of the derivatives totalled a net liability of $20 million as at December 31, 2017 (December 31, 2016 − $24 million).

The following table shows the pre-tax amounts related to derivatives recorded in AOCL and net income for the years ended December 31:

(millions of dollars)	2017	2016
Cash flow hedges (recorded in AOCL)		
Reclassification of losses to net interest expense	**20**	21
Commodity derivatives (recorded in net income)		
Realized losses in revenue	**(9)**	(12)
Unrealized gains (losses) in revenue	**3**	(3)

Existing pre-tax net losses of $19 million deferred in AOCL as at December 31, 2017 are expected to be reclassified to net income within the next 12 months.

13. FAIR VALUE MEASUREMENTS

OPG is required to classify fair value measurements using a fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels, based on the inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: Valuation of inputs is based on unadjusted quoted market prices observed in active markets for identical assets or liabilities.
- Level 2: Valuation is based on inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Valuation is based on inputs for the asset or liability that are not based on observable market data.

The fair value of financial instruments traded in active markets is based on quoted market prices as at the consolidated balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by OPG is the current bid price. These instruments are included in Level 1 and are comprised primarily of equity investments and fund investments.

For financial instruments for which quoted market prices are not directly available, fair values are estimated using forward price curves developed from observable market prices or rates. The estimation of fair value may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing as at the consolidated balance sheet dates. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. Pooled fund investments are valued at the unit values supplied by the pooled fund administrators. The unit values represent the underlying net assets at fair values, determined using closing market prices. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

The following is a summary of OPG's financial instruments and their fair value as at December 31, 2017 and December 31, 2016:

	Fair Value		Carrying Value [1]		
(millions of dollars)	**2017**	**2016**	**2017**	**2016**	**Balance Sheet Line Item**
Nuclear Segregated Funds (includes current portion) [2]	**16,724**	15,984	**16,724**	15,984	Nuclear fixed asset removal and nuclear waste management funds
Financing receivables	**1,179**	-	**1,179**	-	Financing receivables
Investment in Hydro One shares	**188**	212	**188**	212	Available-for-sale securities
Payable related to cash flow hedges	**(40)**	(48)	**(40)**	(48)	Long-term accounts payable and accrued charges
Long-term debt – OPG (includes current portion)	**(6,234)**	(6,033)	**(5,735)**	(5,520)	Long-term debt
Long-term debt – Fair Hydro Trust	**(601)**	-	**(601)**	-	Long-term debt
Other financial instruments	**(16)**	(18)	**(16)**	(18)	Various

[1] The carrying values of other financial instruments included in cash and cash equivalents, receivables from related parties, other current assets, short-term debt, and accounts payable and accrued charges approximate their fair values due to the immediate or short-term maturity of these financial instruments.

[2] The Nuclear Segregated Funds are comprised of the Decommissioning Segregated Fund and the Used Fuel Segregated Fund. OPG's fair value of the Nuclear Segregated Funds is set not to exceed an amount equal to the funding liability pursuant to the ONFA when the Nuclear Segregated Funds are in a surplus position. Refer to Note 8 for further information.

The fair value of the Fair Hydro Trust long-term senior debt and OPG's long-term debt issued under the Medium Term Note Program are based on unadjusted quoted active market prices, which are considered Level 1 inputs. All other long-term debt instruments are determined based on a conventional pricing model, which is a function of future cash flows, the current market yield curve and term to maturity. These inputs are considered Level 2 inputs.

For the financing receivables related to the Investment Interest acquired from the IESO, fair value is estimated to equal the fair value of the underlying long-term debt due to the direct relationship between the asset and the debt instruments that financed the acquisition. The financing receivables are funded by both long-term senior debt issued by the Fair Hydro Trust to third parties and subordinated debt issued by the Trust to OPG and eliminated on consolidation. Therefore, the fair value of the portion of the financing receivables funded by the long-term senior debt is based on Level 1 inputs, while the portion funded by the subordinated debt has inputs that are based on indicative pricing from the market, which are considered Level 2 inputs.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques are used to value these instruments. Significant Level 3 inputs include: recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors.

The following tables present financial assets and financial liabilities measured at fair value in accordance with the fair value hierarchy as at December 31, 2017 and December 31, 2016:

	December 31, 2017			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Used Fuel Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	**6,090**	**4,705**	**-**	**10,795**
Investments measured at NAV [1]				**1,292**
				12,087
Due to Province				**(2,529)**
Used Fuel Segregated Fund, net				**9,558**
Decommissioning Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	**4,547**	**3,487**	**-**	**8,034**
Investments measured at NAV [1]				**1,065**
				9,099
Due to Province				**(1,933)**
Decommissioning Segregated Fund, net				**7,166**
Investment in available-for-sale securities	**188**	**-**	**-**	**188**
Other financial assets	**5**	**3**	**6**	**14**
Liabilities				
Other financial liabilities	**(28)**	**(2)**	**-**	**(30)**

[1] Represents investments measured at fair value using NAV as a practical expedient, which have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to amounts presented on the consolidated balance sheets.

(millions of dollars)	December 31, 2016 Level 1	Level 2	Level 3	Total
Assets				
Used Fuel Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	5,602	4,394	-	9,996
Investments measured at NAV [1]				1,086
				11,082
Due to Province				(1,938)
Used Fuel Segregated Fund, net				9,144
Decommissioning Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	4,171	3,243	-	7,414
Investments measured at NAV [1]				903
				8,317
Due to Province				(1,477)
Decommissioning Segregated Fund, net				6,840
Investments in available-for-sale securities	212	-	-	212
Other financial assets	6	2	9	17
Liabilities				
Other financial liabilities	(29)	(6)	-	(35)

[1] Represents investments measured at fair value using NAV as a practical expedient, which have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to amounts presented on the consolidated balance sheets.

During the year ended December 31, 2017, there were no transfers between Level 1 and Level 2. In addition, there were no transfers into or out of Level 3.

The following table presents the changes in OPG's net assets measured at fair value that are classified as Level 3 financial instruments.

(millions of dollars)	Other financial instruments
Opening balance, January 1, 2017	**9**
Unrealized losses included in revenue	**(3)**
Realized losses included in revenue	**(9)**
Purchases	**9**
Closing balance, December 31, 2017	**6**

Nuclear Segregated Funds

The fair value of the investments within the Nuclear Segregated Funds' real assets portfolio is determined using appropriate valuation techniques, such as recent arm's-length market transactions, references to current fair values of other instruments that are substantially the same, discounted cash flow analyses, third-party independent appraisals, valuation multiples, or other valuation methods. Any control, size, liquidity or other discount premiums on the investments are considered in the determination of fair value.

The process of valuing investments for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for these investments. The values may also differ from the prices at which the investments may be sold.

The following are the classes of investments within the Nuclear Segregated Funds that are reported on the basis of NAV as at December 31, 2017:

(millions of dollars except where noted)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Real Assets				
Infrastructure	**1,330**	**798**	**n/a**	**n/a**
Real Estate	**936**	**440**	**n/a**	**n/a**
Agriculture	**91**	**97**	**n/a**	**n/a**
Pooled Funds				
Short-term Investments	**32**	**n/a**	**Daily**	**1 - 5 Days**
Fixed Income	**729**	**n/a**	**Daily**	**1 - 5 Days**
Equity	**952**	**n/a**	**Daily**	**1 - 5 Days**
Total	**4,070**	**1,335**		

The fair value of the pooled funds is classified as Level 2. Infrastructure, real estate and agriculture investments are measured using NAV as a practical expedient for determining their fair value.

Infrastructure

This asset class includes investments in funds and assets with an objective to generate a combination of long-term capital appreciation and current income, generally through private investments in sectors such as energy, transportation, communication and utilities. The fair values of investments in this class have been estimated using NAV of the Nuclear Segregated Funds' ownership interest in these investments. The investments in the respective funds are not redeemable. However, the Nuclear Segregated Funds may transfer any of their partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each infrastructure fund will be received based on the operations of the underlying investments and/or as the underlying investments are liquidated. It is not possible to estimate when the underlying assets in this asset class will be liquidated.

Real Estate

This asset class includes investments in funds and assets with an objective to generate a combination of long-term capital appreciation and current income, generally through investments in institutional-grade real estate property. The fair values of the investments in this class have been estimated using NAV of the Nuclear Segregated Funds' ownership interest in these investments. The investments in the respective funds are not redeemable. However, the Nuclear Segregated Funds may transfer any of their partnership interests to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each real estate fund will be received based on the operations of the underlying investments and/or as the underlying investments are liquidated. For investments in private real estate corporations, shares may be redeemed through a pre-established redemption process. It is not possible to estimate when the underlying assets in this asset class will be liquidated.

Agriculture

This asset class includes investments in funds and assets with an objective to provide a differentiated return source, income yield, and inflation protection, generally through private investments in global farmland and timberland. The fair values of the investments in this class have been estimated using NAV of the Nuclear Segregated Funds' ownership interest in these investments. The investments in the respective funds are not redeemable. However, the Nuclear Segregated Funds may transfer any of their partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each agriculture fund will be received based on the operations of the underlying investments and/or as the underlying investments are liquidated. It is not possible to estimate when the underlying assets in this asset class will be liquidated.

Pooled Funds

This asset class represents investments in pooled funds, which primarily include a diversified portfolio of fixed income securities, issued mainly by Canadian corporations, and diversified portfolios of Emerging Market listed equity. The investment objective of the pooled funds is to achieve capital appreciation and income through professionally managed portfolios. The fair value of the investments in this class has been estimated using NAV per share of the investments. There are no significant restrictions on the ability to sell the investments in this class.

14. SHARE CAPITAL

Common Shares

As at December 31, 2017 and 2016, OPG had 256,300,010 common shares issued and outstanding at a stated value of $5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value. Any issue of new shares is subject to the consent of OPG's shareholder, the Province.

Class A Shares

The Company’s Articles of Amalgamation were amended effective December 1, 2017 to allow for the creation and issuance of non-voting Class A shares to the Province in exchange for equity injections in OPG. All of the outstanding shares are owned directly by the Province and OPG is authorized to issue an unlimited number of Class A shares without nominal or par value. The Class A and common shares rank equally as to entitlement to dividends, and all dividends declared by OPG must be declared in equal amounts per share on all outstanding shares without preference or distinction. Upon the liquidation, dissolution or wind-up of OPG, whether voluntary or involuntary, the holders of Class A shares and common shares are entitled to share equally, on a share for share basis, in all distributions of property and assets without preference or distinction. Any issue of new class of shares is subject to the consent of the Province. OPG is entitled to redeem outstanding Class A shares as may be approved by OPG’s Board of Directors.

In December 2017, OPG issued 12,217,616 Class A shares at a price of $42.46 per share to the Province for its equity injection in OPG, generating proceeds of $519 million. These proceeds were used by OPG to purchase the Fair Hydro Trust’s subordinated debt in the amount of 44 percent of the total funding requirement for the Trust’s acquisition of Investment Interest from the IESO in December 2017.

15. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing net income attributable to the Shareholder by the weighted average number of shares outstanding.

Class A shares are included in the weighted average number of shares outstanding. The weighted average number of shares outstanding as at December 31, 2017 was 256.7 million (2016 – 256.3 million). There were no dilutive securities during the years ended December 31, 2017 and 2016.

16. COMMITMENTS AND CONTINGENCIES

Litigation

On August 9, 2006, a Notice of Action and Statement of Claim filed with the Ontario Superior Court of Justice in the amount of $500 million was served against OPG and Bruce Power by British Energy Limited and British Energy International Holdings Limited (together British Energy). The action is for contribution and indemnity of any amounts British Energy was liable for in an arbitration against it by some of the owners of Bruce Power regarding an alleged breach of British Energy's representations and warranties to the claimants when they purchased British Energy's interest in Bruce Power (the Arbitration). Both the action and the Arbitration relate to corrosion to a steam generator unit discovered after OPG leased the Bruce nuclear generating stations to Bruce Power.

In 2012, the arbitrator found that British Energy was liable to the claimants for some of the damages they claimed. The final settlement amount was valued by British Energy at $71 million. In September 2014, British Energy amended its Statement of Claim (Amended Claim) to reduce the claim amount to $100 million to reflect that the purchasers of British Energy's interest in Bruce Power did not receive the full damages they originally claimed in the Arbitration. British Energy also added an allegation to its Amended Claim that OPG breached a covenant to maintain the steam generator between the time of the initial agreement to lease and the effective date of the lease in accordance with "Good Utility Practices".

In November 2016, British Energy obtained consent from Ontario Superior Court of Justice to a timetable for the remaining steps in the litigation, pursuant to which the matter must be set down for trial by December 31, 2018. OPG has delivered a statement of defence in accordance with an extension of the original June 30, 2017 delivery deadline set up in the timetable.

Various other legal proceedings are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of business activities.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably. While it is not possible to determine the ultimate outcome of the various pending actions, it is the Company's belief that their resolution is not likely to have a material adverse impact on its financial position.

Guarantees

The Company and its joint venture partners have jointly guaranteed the financial performance of jointly owned entities related primarily to the payment of liabilities. As at December 31, 2017, the total amount of guarantees OPG provided to these entities was $82 million (December 31, 2016 − $83 million). OPG may terminate some of these guarantees within a short time frame by providing written notice to the counterparties at any time. Other guarantees have terms ending between 2019 and 2029. As at December 31, 2017, the potential impact of the fair value of these guarantees to income has been estimated to be negligible and OPG does not expect to make any payments associated with these guarantees.

Contractual Obligations

OPG's contractual obligations as at December 31, 2017 are as follows:

(millions of dollars)	**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**	**Total**
Fuel supply agreements	158	125	115	88	67	67	620
Contributions to the OPG registered pension plan [1]	215	219	-	-	-	-	434
OPG long-term debt repayment	398	368	663	413	172	3,721	5,735
Interest on OPG long-term debt	244	226	204	175	161	3,006	4,016
Fair Hydro Trust senior debt repayment [2]	-	601	-	-	-	-	601
Interest on Fair Hydro Trust senior debt	15	15	-	-	-	-	30
Commitments related to Darlington Refurbishment project [3]	457	-	-	-	-	-	457
Commitments related to Ranney Falls GS project	5	-	-	-	-	-	5
Operating licences	40	41	24	28	28	87	248
Operating lease obligations	28	24	24	22	22	79	199
Unconditional purchase obligations	62	59	56	5	-	-	182
Accounts payable and accrued charges	957	8	-	-	-	16	981
Other	47	28	2	1	1	64	143
Total	2,626	1,714	1,088	732	451	7,040	13,651

[1] The pension contributions include ongoing funding requirements and additional funding requirements towards the deficit, in accordance with the actuarial valuation of the OPG registered pension plan as at January 1, 2017. The next actuarial valuation of the OPG registered pension plan must have an effective date no later than January 1, 2020. The pension contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, changes in the pension regulatory environment, and the timing of funding valuations. Funding requirements after 2019 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. The amount of OPG's additional voluntary contribution, if any, is revisited from time to time.

[2] The notes were issued by the Fair Hydro Trust under an $800 million two-year revolving warehouse facility in December 2017. In February 2018, the Trust issued $500 million of senior notes payable to repay the majority of the outstanding balance of the revolving warehouse facility.

[3] Represents estimated currently committed costs to close the project, including accruals for completed work, demobilization of project staff and cancellation of existing contracts and material orders.

Contractual and commercial commitments as noted exclude certain purchase orders, as they represent purchase authorizations rather than legally binding contracts, and are subject to change without significant penalties.

Lease Commitments

The Company leases the Bruce A and Bruce B nuclear generating stations to Bruce Power. Under the lease agreement, as amended in December 2015, Bruce Power has options to renew the lease up to the end of 2064. As per *Ontario Regulation 53/05* pursuant to the *Ontario Energy Board Act, 1998*, the difference between OPG's revenues and costs associated with the Bruce A and Bruce B nuclear generating stations is included in the determination of OPG's nuclear regulated prices established by the OEB. The OEB has determined that, since the Bruce nuclear generating stations are not prescribed under *Ontario Regulation 53/05*, these revenues, including lease revenues, and costs, including depreciation expense, are to be calculated on the basis of the manner in which they are recognized in OPG's consolidated financial statements, without the application of regulatory constructs. As such, the net book value of the assets for these stations is not included in the regulated rate base.

The net book value of PP&E on lease to Bruce Power as at December 31, 2017 was $2,962 million (2016 – $2,986 million). The net book value is largely comprise of asset retirement costs. Refer to Note 3 for further details on the change in the estimate for the ARO.

Collective Bargaining Agreements

The Company maintains labour agreements with the Power Workers' Union (PWU) and The Society of Energy Professionals (The Society). As of December 31, 2017, the PWU represented approximately 4,850 OPG regular employees or approximately 53 percent of OPG's regular workforce. The current collective agreement between OPG and the PWU has a three-year term, expiring on March 31, 2018. As at December 31, 2017, The Society represented approximately 3,250 OPG employees or approximately 35 percent of OPG's regular workforce. The current collective agreement between OPG and The Society has a three-year term, expiring on December 31, 2018.

17. BUSINESS SEGMENTS

Effective in the fourth quarter of 2017, OPG has the following six reportable business segments:

- Regulated – Nuclear Generation
- Regulated – Nuclear Waste Management
- Regulated – Hydroelectric
- Contracted Generation Portfolio
- Services, Trading, and Other Non-Generation
- Fair Hydro Trust

Regulated – Nuclear Generation Segment

The Regulated – Nuclear Generation business segment operates in Ontario, generating and selling electricity from the Pickering GS and the Darlington GS, both owned and operated by OPG. The business segment also includes revenue under the terms of a long-term lease arrangement and related agreements with Bruce Power related to the Bruce nuclear generating stations. This revenue includes lease revenue, fees for nuclear waste management, and revenue from heavy water sales and detritiation services. The segment also earns revenue from existing isotope sales contracts and ancillary services supplied by OPG from the nuclear stations it operates. Ancillary revenues are earned through voltage control and reactive support.

Regulated – Nuclear Waste Management Segment

OPG's Regulated – Nuclear Waste Management business segment reports the results of the Company's operations associated with the management of nuclear used fuel and L&ILW, the decommissioning of OPG's nuclear generating stations including the stations on lease to Bruce Power and other facilities, the management of the Nuclear Segregated Funds, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, accretion expense, which is the increase in the Nuclear Liabilities carried on the consolidated balance sheets in present value terms due to the passage of time, and earnings from the Nuclear Segregated Funds are reported under this segment.

As the nuclear generating stations operate over time, OPG incurs incremental costs related to used nuclear fuel and L&ILW, which increase the Nuclear Liabilities. OPG charges these incremental costs to current operations in the Regulated – Nuclear Generation segment to reflect the cost of producing energy from the Pickering and Darlington nuclear generating stations and earning revenue under the Bruce Power lease arrangement and related agreements. Since the incremental costs increase the Nuclear Liabilities reported in the Regulated – Nuclear Waste Management segment, OPG records an inter-segment charge between the Regulated – Nuclear Generation and the Regulated – Nuclear Waste Management segments. The impact of the inter-segment charge is eliminated in the consolidated statements of income and balance sheets.

The Regulated – Nuclear Waste Management segment is considered regulated because OPG's costs associated with the Nuclear Liabilities are included in the OEB's determination of regulated prices for production from the Pickering and Darlington nuclear generating stations.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of the Company's hydroelectric generating stations. The business segment comprises the results of 54 regulated hydroelectric generating stations located across a number of major river systems in the province.

In addition, the business segment includes ancillary and other revenues from OPG's regulated hydroelectric stations. Ancillary revenues are earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities, regulation service, and other services.

Contracted Generation Portfolio Segment

The Contracted Generation Portfolio business segment operates in Ontario, generating and selling electricity from the Company's generating stations that are not prescribed for rate regulation. The segment primarily includes generating facilities that are under an ESA or other long-term contracts with the IESO.

The Contracted Generation Portfolio segment also includes OPG's share of equity income from its 50 percent ownership interests in the PEC and Brighton Beach stations.

The business segment also includes ancillary revenues and other revenues from the stations included in the segment, which are earned through offering available generating capacity as operating reserve, and the supply of other ancillary services including voltage control and reactive support, certified black start facilities, regulation service, and other services.

Services, Trading, and Other Non-Generation Segment

The Services, Trading, and Other Non-Generation business segment is a non-generation segment that is not subject to rate regulation. It includes the revenue and expenses related to OPG's trading and other non-hedging activities.

As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate to electricity that is purchased and sold at the Ontario border, financial energy trades, financial risk management energy product revenues, and sales of energy-related products. In addition, OPG has a wholly owned trading subsidiary that transacts solely in the US market. The results of this subsidiary are reported in this segment. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value on the consolidated balance sheets with changes in fair value recorded in the revenue of this segment.

In addition, the segment includes revenue from real estate rentals and non-regulated services, gains or losses on disposition of non-regulated real estate assets, costs associated with non-regulated business development activities, and costs related to the Lambton GS and Nanticoke GS sites.

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain PP&E and intangible assets held within Service, Trading, and Other Non-Generation segment. The total service fee is recorded as a reduction to the segment's OM&A expenses.

The service fee included in OM&A expenses by segment in 2017 and 2016 was as follows:

(millions of dollars)	2017	2016
Regulated – Nuclear Generation	**36**	34
Regulated – Hydroelectric	**7**	7
Contracted Generation Portfolio	**4**	4
Reduction to Services, Trading, and Other Non-Generation	**47**	45

Fair Hydro Trust Segment

The Fair Hydro Trust segment is a non-generation segment that is not subject to rate regulation. It reports OPG's income related to its role as the Financial Services Manager under the Fair Hydro Act and holder of the Trust's subordinated debt, and includes the financial results of the Trust. Segment earnings include interest income from the Trust, recovery of third-party costs and fees for financial management and ongoing administration services, partially offset by interest costs on debt issued by OPG to fund its purchase of the Trust's subordinated debt and third-party and other costs incurred related to the management and administration of the Trust. OPG's fees for its services to the Trust, as the Financial Services Manager, are subject to an annual review by the OEB.

The earnings from the Fair Hydro Trust are comprised of the following for the year ended December 31:

(millions of dollars)	2017
Revenue	**(8)**
Operating expenses	**8**
Interest income	**(1)**
Earnings from Fair Hydro Trust	**(1)**

Segment Income (Loss) for the Year Ended December 31, 2017 *(millions of dollars)*	**Nuclear Gene-ration**	**Regulated Nuclear Waste Manage-ment**	**Hydro-Electric**	**Contracted Generation Portfolio**	**Unregulated Services, Trading, and Other Non-Generation**	**Fair Hydro Trust**	**Elimi-nation**	**Total**
Revenue	**3,095**	**121**	**1,436**	**579**	**43**	**-**	**(116)**	**5,158**
Fuel expense	**284**	**-**	**351**	**53**	**1**	**-**	**-**	**689**
Gross margin	**2,811**	**121**	**1,085**	**526**	**42**	**-**	**(116)**	**4,469**
Operations, maintenance and administration	**2,293**	**129**	**330**	**169**	**18**	**1**	**(116)**	**2,824**
Depreciation and amortization	**431**	**-**	**139**	**79**	**30**	**-**	**-**	**679**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**943**	**-**	**9**	**8**	**-**	**-**	**960**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(801)**	**-**	**-**	**-**	**-**	**-**	**(801)**
Earnings from Fair Hydro Trust	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Income from investments subject to significant influence	**-**	**-**	**-**	**(38)**	**-**	**-**	**-**	**(38)**
Property taxes	**26**	**-**	**1**	**7**	**6**	**-**	**-**	**40**
Other losses (gains)	**4**	**-**	**1**	**-**	**(384)**	**-**	**-**	**(379)**
Income (loss) before interest and income taxes	**57**	**(150)**	**614**	**300**	**364**	**-**	**-**	**1,185**
Net interest expense								**95**
Income before income taxes								**1,090**
Income tax expense								**209**
Net income								**881**

Segment Income (Loss) for the Year Ended December 31, 2016 *(millions of dollars)*	**Nuclear Generation**	**Regulated Nuclear Waste Management**	**Hydroelectric**	**Unregulated Contracted Generation Portfolio**	**Unregulated Services, Trading, and Other Non-Generation**	**Elimination**	**Total**
Revenue	3,481	138	1,527	573	68	(134)	5,653
Fuel expense	315	-	353	58	1	-	727
Gross margin	3,166	138	1,174	515	67	(134)	4,926
Operations, maintenance and administration	2,210	146	325	178	22	(134)	2,747
Depreciation and amortization	925	-	225	75	32	-	1,257
Accretion on fixed asset removal and nuclear waste management liabilities	-	912	-	9	8	-	929
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(746)	-	-	-	-	(746)
Income from investments subject to significant influence	-	-	-	(37)	-	-	(37)
Property taxes	26	-	1	7	12	-	46
Restructuring	-	-	-	-	6	-	6
Other losses (gains)	1	-	(19)	1	-	-	(17)
Income (loss) before interest and income taxes	4	(174)	642	282	(13)	-	741
Net interest expense							120
Income before income taxes							621
Income tax expense							168
Net income							453

Selected Consolidated Balance Sheet information as at December 31, 2017 *(millions of dollars)*	**Nuclear Gener-ation**	**Regulated Nuclear Waste Manage-ment**	**Hydro-electric**	**Unregulated Contracted Generation Portfolio**	**Unregulated Services, Trading, and Other Non-Generation**	**Fair Hydro Trust**	**Total**
Segment property, plant and equipment in-service, net	**6,167**	**-**	**7,359**	**3,480**	**224**	**-**	**17,230**
Segment construction in progress	**3,839**	**-**	**157**	**78**	**18**	**-**	**4,092**
Segment property, plant and equipment, net	**10,006**	**-**	**7,516**	**3,558**	**242**	**-**	**21,322**
Segment intangible assets in-service, net	**4**	**-**	**1**	**5**	**84**	**-**	**94**
Segment development in progress	**16**	**-**	**-**	**-**	**23**	**-**	**39**
Segment intangible assets, net	**20**	**-**	**1**	**5**	**107**	**-**	**133**
Segment fuel inventory	**265**	**-**	**-**	**44**	**-**	**-**	**309**
Segment materials and supplies inventory:							
Current	**102**	**-**	**-**	**1**	**-**	**-**	**103**
Long-term	**351**	**-**	**-**	**4**	**-**	**-**	**355**
Nuclear fixed asset removal and nuclear waste management funds (current and non-current portions)	**-**	**16,724**	**-**	**-**	**-**	**-**	**16,724**
Financing receivables	**-**	**-**	**-**	**-**	**-**	**1,179**	**1,179**
Fixed asset removal and nuclear waste liabilities	**-**	**(20,077)**	**-**	**(151)**	**(193)**	**-**	**(20,421)**

Selected Consolidated Balance Sheet Information as at December 31, 2016 *(millions of dollars)*	**Nuclear Generation**	**Regulated** **Nuclear Waste Manage-ment**	**Hydro-electric**	**Unregulated** **Contracted Generation Portfolio**	**Services, Trading, and Other Non-Generation**	**Total**
Segment property, plant and equipment in-service, net	5,653	-	7,355	3,282	226	16,516
Segment construction in progress	2,988	-	166	301	27	3,482
Segment property, plant and equipment, net	8,641	-	7,521	3,583	253	19,998
Segment intangible assets in-service, net	7	-	2	4	66	79
Segment development in progress	3	-	-	1	16	20
Segment intangible assets, net	10	-	2	5	82	99
Segment fuel inventory	276	-	-	34	-	310
Segment materials and supplies inventory:						
Current	99	-	-	1	-	100
Long-term	340	-	1	4	-	345
Nuclear fixed asset removal and nuclear waste management funds (current and non-current portions)	-	15,984	-	-	-	15,984
Fixed asset removal and nuclear waste management liabilities	-	(19,103)	-	(160)	(221)	(19,484)

Segment Capital Expenditure Information *(millions of dollars)*	**Nuclear Generation**	**Regulated** **Nuclear Waste Manage-ment**	**Hydro-electric**	**Unregulated** **Contracted Generation Portfolio**	**Services, Trading, and Other Non-Generation**	**Fair Hydro Trust**	**Total**
Year ended December 31, 2017 Investment in property, plant and equipment, and intangible assets	**1,631**	**-**	**148**	**73**	**74**	**-**	**1,926**
Year ended December 31, 2016 Investment in property, plant and equipment, and intangible assets	1,338	-	132	198	36	-	1,704

18. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

	December 31	
(millions of dollars)	**2017**	**2016**
Receivables from related parties	**60**	116
Fuel inventory	**1**	34
Materials and supplies	**(3)**	(4)
Prepaid expenses	**(14)**	(6)
Other current assets [1]	**(28)**	(32)
Income taxes payable	**2**	57
Accounts payable and accrued charges	**36**	15
	54	180

[1] Represents other accounts receivable.

19. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province and other entities controlled by the Province.

The related party transactions summarized below include transactions with the Province and the principal successors to the former Ontario Hydro's integrated electricity business, including Hydro One, the IESO and the OEFC. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As one of several wholly owned government business enterprises of the Province, OPG also has transactions in the normal course of business with various government ministries and organizations in Ontario that fall under the purview of the Province.

The related party transactions for the years ended December 31 are summarized below:

	2017		2016	
(millions of dollars)	**Income**	**Expense**	**Income**	**Expense**
Hydro One				
Electricity sales	**8**	**-**	6	-
Services	**1**	**10**	1	5
Dividends	**7**	**-**	6	-
Province of Ontario				
Change in Decommissioning Segregated Fund amount due to Province [1]	**-**	**456**	-	192
Change in Used Fuel Segregated Fund amount due to Province [1]	**-**	**591**	-	235
Hydroelectric gross revenue charge	**-**	**110**	-	120
ONFA guarantee fee	**-**	**8**	-	8
Other	**-**	**2**	-	-
OEFC				
Hydroelectric gross revenue charge	**-**	**216**	-	203
Interest expense on long-term notes	**-**	**158**	-	169
Income taxes, net of investment tax credits	**-**	**246**	-	104
IESO				
Electricity related revenue	**4,802**	**-**	5,082	-
Earnings from Fair Hydro Trust	**1**	**-**	-	-
	4,819	**1,797**	5,095	1,036

[1] The Nuclear Segregated Funds are reported on the consolidated balance sheets net of amounts recognized as due to the Province in respect of excess funding and, for the Used Fuel Segregated Fund, the Province's rate of return guarantee. As at December 31, 2017 and December 31, 2016, the Nuclear Segregated Funds were reported net of amounts due to the Province of $4,462 million and $3,415 million, respectively.

The receivables, financing receivables, AFS securities, payable and long-term debt balances between OPG and its related parties are summarized below:

(millions of dollars)	December 31 2017	2016
Receivables from related parties		
Hydro One	**1**	1
IESO − Electricity related receivables	**354**	421
IESO − Fair Hydro Trust [1]	**7**	-
OEFC	**-**	1
PEC	**4**	4
Province of Ontario	**3**	2
Financing receivables		
IESO − Fair Hydro Trust	**1,179**	-
Available-for-sale securities		
Hydro One shares	**188**	212
Accounts payable and accrued charges		
Hydro One	**1**	-
OEFC	**52**	61
Province of Ontario	**9**	2
IESO − Electricity related payables	**5**	2
IESO − Fair Hydro Trust	**3**	-
Long-term debt (including current portion)		
Notes payable to OEFC	**3,195**	3,295

[1] Balance consists of unbilled revenue.

OPG may hold Province of Ontario bonds and treasury bills in the Nuclear Segregated Funds and the OPG registered pension fund. As at December 31, 2017, the Nuclear Segregated Funds held $1,502 million of Province of Ontario bonds (2016 − $1,650 million) and $9 million of Province of Ontario treasury bills (2016 − $2 million). As of December 31, 2017, the registered pension fund held $1 million in Province of Ontario treasury bills (2016 − $271 million). These Province of Ontario bonds and treasury bills are publicly traded securities and are measured at fair value. OPG jointly oversees the investment management of the Nuclear Segregated Funds with the Province.

In December 2017, the Fair Hydro Trust purchased its first tranche of Investment Interest from the IESO for an exchange amount of $1.18 billion, which has been classified as a financing receivable on OPG's consolidated balance sheet. The transaction was settled in cash using proceeds from the Trust's issuance of senior debt to third parties and subordinated debt to OPG. Pursuant to the general regulation of the Fair Hydro Act, the IESO is required to pay and remit carrying costs of the Trust, excluding repayment of principal on any debt obligations, up to July 31, 2021. Commencing May 1, 2021, Specified Consumers will be invoiced by their local distribution company for the Clean Energy Adjustment to pay the carrying costs of the Trust. These funds will be remitted to the Trust through the IESO and will be used to settle all funding and other related expenses of the Trust that underlie the financing receivable.

As at December 31, 2017, OPG's consolidated balance sheet included approximately $7 million of unbilled revenue from the IESO, primarily for OPG's general fee for 2017 as the Financial Services Manager under the Act relating to incurred third-party and certain direct labour costs.

The Province has provided a limited guarantee to specified creditors of the Fair Hydro Trust. The limited guarantee would be triggered in the event that the Trust's ability to receive amounts in respect of its Investment Interest to pay for certain funding obligations is adversely affected due to one or more of the following: the Province changes the Fair Hydro Act or any other legislation or regulation; a significant change in Ontario's electricity market undertaken by the Province; or a court declares that the Act is invalid or unconstitutional.

20. INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

Investments subject to significant influence consist of OPG's 50 percent ownership interest in the jointly controlled entities of PEC and Brighton Beach, which are accounted for using the equity method. A summary of the balances of the jointly controlled entities as at December 31, 2017 and December 31, 2016 are as follows:

(millions of dollars)	**2017**	**2016**
PEC		
Current assets	**20**	18
Long-term assets	**240**	256
Current liabilities	**(10)**	(8)
Long-term liabilities	**(6)**	(5)
Brighton Beach		
Current assets	**5**	5
Long-term assets	**160**	168
Current liabilities	**(17)**	(16)
Long-term liabilities	**(9)**	(7)
Long-term debt	**(74)**	(90)
Investments subject to significant influence	**309**	321

21. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2017, research and development expenses of $106 million (2016 – $95 million) were charged to operations.

22. NON-CONTROLLING INTEREST

PSS Generating Station LP

PSS is a limited partnership between OPG, CRP and PSS GS Inc. The principal business of the partnership is the development, construction, ownership, operation and maintenance of the 28 MW Peter Sutherland Sr. hydroelectric GS on the New Post Creek.

The Peter Sutherland Sr. GS was placed in-service in March 2017 and, in April 2017, CRP increased its interest in PSS to 33 percent under the partnership agreement, by making contributions of $21 million, reducing OPG's interest to 67 percent. CRP's 33 percent interest in PSS is reported as non-controlling interest. As a result of CRP increasing its interest in the partnership, PSS's AOCL and partner's deficit as at the time of CRP's contribution were proportionately allocated to CRP as a reduction to its non-controlling interest.

Nanticoke Solar LP

In March 2016, Nanticoke Solar LP (NSLP), then a partnership between OPG, SunEdison Canadian Construction LP (SECCLP) and a subsidiary of the Six Nations of the Grand River Development Corporation, was selected through IESO's Large Renewal Procurement program to construct a 44 MW solar facility at OPG's Nanticoke GS site and adjacent lands. In the first quarter of 2017, OPG acquired all of SECCLP's interests in NSLP, which represented 25 percent of the equity interest in NSLP. Subsequent to the acquisition, OPG owns 90 percent of the equity interest in NSLP, with an approximate value of $2 million. OPG consolidates the results of the NSLP in its consolidated financial statements and reports the equity interest of the other partner as non-controlling interest.

TRUSTS AND MISCELLANEOUS STATEMENTS

Deposit Insurance Corporation of Ontario

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Deposit Insurance Corporation of Ontario's management is responsible for the integrity and fair presentation of the financial statements and all other information presented in the Annual Report. The financial statements have been prepared by management in conformity with IFRS, and, where appropriate, include amounts based on management's best estimates and judgments.

Management is also responsible for developing and maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and the Corporation adheres to legislation and regulatory requirements. These systems include the communication of policies and the Corporation's code of ethics and business conduct throughout the organization.

The financial statements have been reviewed by the Corporation's Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been audited by KPMG LLP, whose report follows.

Guy Hubert
President & CEO

Randy Nanek
Vice President & Chief Financial Officer

Toronto, Canada
March 28, 2018

Independent Auditor's Report

To the Board of Directors of Deposit Insurance Corporation of Ontario

We have audited the accompanying financial statements of Deposit Insurance Corporation of Ontario, which comprise the statement of financial position as at December 31, 2017, the statements of operations and changes in the deposit insurance reserve fund, comprehensive income, accumulated other comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Deposit Insurance Corporation of Ontario as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

KPMG LLP
Chartered Professional Accountants, Licensed Public Accountants

March 28, 2018
Toronto, Canada

Statement of Financial Position

(in thousands of dollars)	Notes	As at December 31, 2017	2016
ASSETS			
Current assets			
Cash and cash equivalents		$ 1,527	$ 1,216
Investments	5	185,987	182,168
Premiums receivable		594	637
Prepaid expenses and other receivables		653	399
Total current assets		188,761	184,420
Non-current assets			
Investments	5	67,994	47,222
Deposit insurance advances recoverable	6	4,699	6,255
Property, plant and equipment	7	225	252
Total non-current assets		72,918	53,729
Total assets		$ 261,679	$ 238,149
LIABILITIES			
Current liabilities			
Payables and accruals		$ 2,050	$ 1,273
Deferred premium income	4	989	781
Total current liabilities		3,039	2,054
Non-current liabilities			
Payables and accruals		1,024	979
Employee benefits	9	6,339	6,243
Accrual for deposit insurance claims	6	3,000	3,000
Total non-current liabilities		10,363	10,222
Total Liabilities		$ 13,402	12,276
EQUITY			
Accumulated other comprehensive income (loss)		$ (563)	(175)
Deposit Insurance Reserve Fund		248,840	226,048
Total Equity		$ 248,277	225,873
Total Liabilities and Equity		$ 261,679	238,149

See accompanying notes to financial statements

On behalf of the Board:

Director

Carmen Rossiter

Director

Statement of Operations and Changes in the Deposit Insurance Reserve Fund

		Year ended December 31	
(in thousands of dollars)	Notes	2017	2016
Income			
Premium Income	4	$ 30,208	$ 27,134
Other Income		2,248	1,807
		32,456	28,941
Expenses			
Salaries and benefits		7,247	6,478
Operating expenses		2,245	2,253
Recovery of operating expenses		(162)	(261)
		9,330	8,470
Excess of income over operating expenses		23,126	20,471
Provision (recovery) for insurance losses	6	334	(18)
Excess of income over total expenses		22,792	20,489
Deposit Insurance Reserve Fund, beginning of year		226,048	205,559
Deposit Insurance Reserve Fund, end of year		$ 248,840	$ 226,048

See accompanying notes to financial statements

Statement of Comprehensive Income

(in thousands of dollars)	Year ended December 31, 2017	2016
Excess of income over total expenses	$ 22,792	$ 20,489
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale investments arising during the year	(70)	(127)
Unrealized gains (losses) on available-for-sale investments acquired from liquidated institutions arising during the year	56	(41)
Actuarial gains (losses) on post-employment, non-pension benefits arising during the year	(374)	(48)
Total other comprehensive income (loss)	(388)	(216)
Comprehensive income	$ 22,404	$ 20,273

Statement of Accumulated Other Comprehensive Income (Loss)

(in thousands of dollars)	Year ended December 31, 2017	2016
Accumulated other comprehensive income (loss), beginning of year	$ (175)	$ 41
Sale of available-for-sale investment from opening balance of accumulated other comprehensive income	(126)	(146)
Unrealized gains on available-for-sale investments arising during the year	112	19
Unrealized gains (losses) on available-for-sale investment acquired from liquidated institutions arising during the year	-	(41)
Actuarial gains (losses) on post-employment, non-pension benefits arising during the year	(374)	(48)
Net change during the year	(388)	(216)
Accumulated other comprehensive income (loss), end of year	$ (563)	$ (175)

S*ee accompanying notes to financial statements*

Statement of Changes in Equity

	For the year ended December 31	
(in thousands of dollars)	2017	2016
Deposit Insurance Reserve Fund		
Balance at beginning of year	$ 226,048	$ 205,559
Excess of income over total expenses during the year	22,792	20,489
Balance at End of Year	248,840	226,048
Accumulated other comprehensive Income on Available-for-sale investments		
Balance at beginning of year	263	431
Unrealized gains (losses) on available-for-sale investments arising during the year	(14)	(168)
Balance at End of Year	249	263
Accumulated other comprehensive Income on post-employment, non-pension benefits		
Balance at beginning of year	(438)	(390)
Actuarial gains (losses) on remeasurement of post-employment, non-pension benefits arising during the year	(374)	(48)
Balance at End of Year	(812)	(438)
Total Accumulated Other Comprehensive Income, End of Year	(563)	(175)
Total Equity	$ 248,277	$ 225,873

Statement of Cash Flows

(in thousands of dollars)	Notes	Year ended December 31, 2017	2016
Cash flows from / (used in) operating activities:			
Excess of income over total expenses		$ 22,792	$ 20,489
Adjustments for:			
Provision (recovery) for insurance losses		334	(18)
Loss on disposal of property, plant and equipment		-	2
Unrealized gains (losses) on available-for-sale investments arising during the year		(14)	(168)
Actuarial gains (losses) on post-employment, non-pension benefits arising during the year		(374)	(48)
Depreciation of property, plant and equipment	7	163	199
Amortization of intangible assets	8	-	377
		22,901	20,833
Changes in:			
Premiums receivable		43	444
Prepaid expenses and other receivables		(254)	(8)
Payables and accruals		822	19
Deferred premium income		208	(1,272)
Employee benefits		96	405
		915	(412)
Net deposit insurance recoveries	6	1,222	3,908
		25,038	24,329
Cash flows from / (used in) investing activities:			
Interest received		1,934	1,637
Purchase of investments held at year end		(253,981)	(229,390)
Proceeds on sale of investments		227,456	202,720
Purchase of property, plant and equipment	7	(136)	(50)
		(24,727)	(25,083)
Net increase (decrease) in cash and cash equivalents		311	(754)
Cash and cash equivalents, beginning of year		1,216	1,970
Cash and Cash Equivalents, End of Year		$ 1,527	$ 1,216

Cash and cash equivalents comprise cash and short-term investments.

See accompanying notes to financial statements

Notes to Financial Statements

Year ended December 31, 2017

1. Reporting Entity

The Deposit Insurance Corporation of Ontario (DICO or the Corporation) is a Board-Governed Agency of the Province of Ontario established without share capital under the provisions of the *Credit Unions and Caisses Populaires Act, 1994* (CUCPA).

The statutory obligations of the Corporation under the CUCPA are to:

- Provide insurance against the loss of part or all of deposits with credit unions;
- Promote and otherwise contribute to the stability of the credit union sector in Ontario with due regard to the need to allow credit unions to compete effectively while taking reasonable risks;
- Pursue the objects set out in the above clauses for the benefit of persons having deposits with credit unions and in such manner as will minimize the exposure of the Corporation to loss;
- Collect, accumulate and publish such statistics and other information related to credit unions as may be appropriate;
- Perform duties as stipulated under CUCPA or its regulations; and
- Carry out such other objects as the Minister may specify in writing or as may be prescribed.

On January 1, 2018, the following amendments were made to the General Regulation (Ontario Regulation 237/09) under CUCPA:

- setting the deposit insurance limit for insurable deposits held in non-registered accounts at $250,000 (unlimited deposit insurance for the full amount for insurable deposits held in registered accounts will be maintained);
- removing differentiated rules for small credit unions; and
- permitting credit unions to establish or acquire a corporation that is an insurance agent or a registered insurance broker.

Extra-provincial credit unions are now able to participate in syndicated loans in Ontario and must be registered with FSCO. Ontario credit unions may participate in, but not lead syndicated loans outside of Ontario, and also meet the conditions of the General Regulation.

The CUCPA empowers the Corporation to assess its credit unions deposit insurance premiums to meet the Corporation's requirements for insurance funding and administrative costs. The premium rates are set out in the regulation to the CUCPA. The Corporation reviews the adequacy of the premium rate annually and advises the Government accordingly.

The Minister of Finance approved a $400 million revolving credit facility agreement with the Ontario Financing Authority (OFA) for the purpose of ensuring the Corporation's capacity to address systemic difficulties in the credit union system that may require resources above those in the Deposit Insurance Reserve Fund (DIRF).

The agreement is effective January 1, 2014 and expires on December 31, 2018. Under the revolving credit facility arrangement, interest cost on any outstanding debt obligation is charged at an annual rate equal to the province's cost of funds for borrowings with a three-month term, determined by the OFA at the time of the borrowing, plus an additional 0.575% per annum.

DICO Mandate

In November 2016, the Ontario Government announced the creation of the Financial Services Regulatory Authority of Ontario (FSRA) resulting from the review of an Expert Advisory Panel of the mandates of DICO, the Financial Services Commission of Ontario and the Financial Services Tribunal. In 2017, the Government introduced Bill 177, which enacted amendments to the governance and structure of the *Financial Services Regulatory Authority of Ontario Act, 2016* (FSRA Act), demonstrating its commitment to modernizing and strengthening the regulation of financial services and pensions, and to improving consumer, investor and pension plan beneficiary protection. The Financial Services Regulation Modernization Secretariat (Secretariat) at the Ministry of Finance, established in Fall of 2017, is tasked with managing/supporting the multi-phased transition to FSRA, which may have implications for DICO's role. The timing and nature of FSRA's implementation is currently unknown.

2. Basis Of Preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and were approved by the Board of Directors on March 28, 2018.

(b) Basis of measurement

The Corporation's financial statements have been prepared on the historical cost basis, except for the financial instruments classified as available-for-sale, which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in the Corporation's functional currency, which is the Canadian dollar. All financial information is presented in Canadian dollars and has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant areas of assumptions and judgements are disclosed in the accrual for deposit insurance claims (note 6) and measurements of accrued benefit obligations in relation to future non-pension post-employment benefits (note 9).

3. Summary Of The Significant Accounting Policies

To facilitate a better understanding of the financial statements, the Corporation has disclosed its significant accounting policies as summarized below. These policies have been applied consistently to all periods presented in the financial statements unless otherwise indicated.

(a) Premium income:

Premiums are based on the Differential Premium Score Determination System, as defined by regulation, and applied to insured deposits held by credit unions. Premium income is calculated based on the Annual Information Return submitted by each credit union, which is due 75 days after its fiscal year end. Premiums are invoiced annually, and income is recognized when earned by amortizing the premium over the credit union's fiscal year.

(b) Provision for losses:

The provision for losses includes specific allowances against deposit insurance advances to credit unions in liquidation, as well as an accrual for losses for which advances have not been made at the date of the Statement of Financial Position.

Funds advanced in respect of deposit insurance and loans to credit unions are initially recorded at cost. Deposit insurance advances recoverable are presented on the Statement of Financial Position, net of specific allowances thereon.

The accrual for deposit insurance claims includes both provisions for specific losses and a general accrual for losses. Specific provisions for losses of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for loss reflects management's best estimate of losses on insured deposits arising from the inherent risk in credit unions. The provision is established by assessing the aggregate risk in credit unions based on current market and economic conditions, the likelihood of losses and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates. Management applies this methodology to evaluate all credit unions with the highest risk scores under our current prospective risk rating system.

The methodology incorporates various iterations and key assumptions, such as historical probabilities of failures (from the Deposit Insurance Reserve Fund model) and actual probabilities of failure when possible. The model also categorizes the credit unions based on asset size and discounts the estimated loss to the next 12-month period. Model results are then considered along with the level of the existing allowance, as well as management's judgement regarding economic and market conditions to come to a final determination of what the general accrual for loss should be.

Changes in the provision for insurance losses that result from quarterly reviews are recognized as an adjustment to the provision for insurance losses in the period in which the estimated changes occur.

(c) Employee benefits:

(i) Defined contribution pension plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into an independent entity and will have no legal or constructive obligation to pay further amounts. The corporation's defined contribution pension plan covers all of the organization's regular, non-contractual employees.

As well, there are supplemental arrangements, which provide pension benefits for income in excess of registered pension plan limits to certain employees. Earnings of the Corporation are charged with the cost of pension benefits earned by employees as service is rendered. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The Corporation assumes no actuarial or investment risk.

(ii) Defined non-pension post-employment benefits

The Corporation provides future non-pension post-employment benefits, which are related to extended health, dental and life benefits for both active employees for whom a full eligibility date was determined and existing qualified retirees. The Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits and the benefit is discounted to determine its present value. There are no assets set aside to fund the benefits. The accrued benefits obligation is calculated annually by a qualified actuary using the Projected Unit Credit method. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation are recognized in full in the Statement of Other Comprehensive Income (OCI), and all projected defined benefit costs are expensed in the Statement of Operations. Additional disclosures are provided in Note 9(ii).

(iii) Other employee benefits

The Corporation also provides for retention benefits accrued for some key employees. The plans are designed to ensure the retention of key personnel to provide sufficient time for effective succession planning. Acceptance of the benefits is voluntary, and the probabilities of acceptance are estimated at the end of the reporting period. The benefits are discounted to their present value if they are payable more than 12 months after the reporting period. All existing plans have been accepted and recorded.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Corporation recognizes the unused entitlement of compensated vacations that has accumulated at the end of the reporting period as accrued short-term benefits.

(d) The Corporation's Financial instruments:

The Corporation's investments are non-derivative financial assets and are classified, based on management's intentions, as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in OCI and presented within equity. When an investment is derecognized/sold, the cumulative gain or loss in OCI is transferred to the Statement of Operations.

(e) Property, plant and equipment:

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, less amortization over their useful lives and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the assets into working condition for their intended use, including the borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized on a net basis within the other income category.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(ii) Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset less its residual value, if any. Depreciation of furniture and equipment is calculated using the diminishing-balance method at the rate of 20% per annum. Computer and related equipment and software are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(f) Intangible assets:

Definite-life intangible assets are amortized to income on either a straight-line or an accelerated basis over the estimated useful lives of the assets. When certain events or changes in operating conditions occur, an impairment assessment is performed and lives of intangible assets with determinable lives may be adjusted. Any changes to useful life, based on management's best estimate would affect the future carrying value and amortization of the asset.

(g) Lease payments:

Payments made under operating leases are recognized in the Statement of Operations on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(h) Income taxes:

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in the Statement of Operations and Changes in the Deposit Insurance Reserve Fund except for items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the intent to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Corporation's main source of revenue is premiums received from credit unions, which are not taxable pursuant to subsection 137.1(2) of the *Income Tax Act*. As a result, the Corporation has been generating non-capital losses for tax purposes since its inception.

(i) Summary of New Accounting Standards:

The impact to the Corporation is isolated to the acceleration of loss recognition on the Corporation's loans purchased from liquidated credit unions.

IFRS 9 Financial Instruments:

In July 2014, the IASB issued the complete version of IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). As a result, the Corporation is required to adopt IFRS 9 on January 1, 2018, for the new classification and measurement and impairment requirements by adjusting our Balance Sheet on January 1, 2018, with no restatement of comparative period financial information.

Classification and measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. All financial assets are measured at fair value through profit or loss (FVTPL), fair value through OCI (FVOCI) or amortized cost based on the nature of the cash flows of the assets and the entity's business model. Financial liabilities follow the requirements of IAS 39. IFRS 9 introduces an expected credit loss impairment model with three stages, which differs significantly from the incurred loss model under IAS 39 and is expected to result in the earlier recognition of credit losses.

The model has three stages:

- (1) on initial recognition, a loss allowance is recognized for 12 months of expected credit losses.
- (2) is based on whether an instrument's credit risk as at the reporting date has significantly increased relative to the date it was initially recognized, and a loss allowance is recognized for lifetime expected credit losses.
- (3) occurs when a financial asset is considered as credit impaired based on loss events; and the loss allowance reflects lifetime expected credit losses and interest revenue is based on the carrying amount of the asset net of loss allowance.

Financial assets can move in both directions through the three stages of the impairment model. If an asset is in Stage 2 and is no longer considered as a significantly increased credit risk compared to its initial recognition in a subsequent reporting period, it may move back to Stage 1. Similarly, an asset that is in Stage 3 may move back to Stage 2 if it is no longer considered to be credit-impaired.

The IFRS 9 list of loss events used to determine if an asset is credit impaired are: significant financial difficulty of the issuer or the borrower, breach of contract, such as a default or past due event, the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider, it is becoming probable that the borrower will enter bankruptcy or other financial reorganization, the disappearance of an active market for that financial asset because of financial difficulties, and the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

For assets that are recognized as credit-impaired on purchase origination, the Effective Interest Rate is calculated by considering the initial lifetime Expected Credit Loss in the estimated cash flows with no additional 12-month expected credit loss allowance.

Forward-looking information

The estimation and application of forward-looking information requires considerable judgment in using information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions to determine significant increases in credit risk. Loss rates used in collectively-assessed Stage 3 allowances are adjusted based on the forward-looking macroeconomic scenarios.

Expected life

For instruments in Stage 2 or Stage 3, loss allowances will cover expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life, adjusted as applicable for expected prepayments. The expected life for these mortgage loans is the contractual maturity (after considering extension options, if any), and the expected life of the unsecured loans is based on the Corporation's historical experience.

Definition of default

The definition of default used in the measurement of expected credit losses and the assessment of qualitative indicators to determine the movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Transition

To manage the transition to IFRS 9, in 2017, the Corporation completed an initial assessment on the scope of IFRS 9, reviewed the classification of financial assets, financial and economic impacts, resource requirements, and key accounting interpretations. During fiscal 2017, the Corporation reviewed credit risk management practices in relation to the recognition and management of estimated credit losses, based reporting on quantitative and qualitative information, continued to provide training to internal stakeholders; and prepared external disclosures to be provided on transition to IFRS 9 and going forward at each reporting date to reflect changes in credit risk since initial recognition.

Loans

The Corporation holds a portfolio of credit-impaired loans purchased from credit unions under liquidation, with unsecured and secured property, which are recognized at fair value upon acquisition from credit unions under liquidation.

Management has reviewed the purchases and valued them at Net Realizable value, $0.50 on the dollar for unsecured loans, or $1.00 on impaired loans, whichever was greater based on the loss events. Once the loans were purchased, collection activities were carried out to recover outstanding balances according to the agreed upon contractual terms with the borrowers. At year-end $969,054 of impaired loans were assessed for objective evidence of collectability, which included indications such as the following: the borrower is experiencing continuous and significant financial difficulty, is bankrupt, has undergone other financial reorganization, has defaults or delinquency of payments, or a measurable decrease has been seen in the estimated future cash flows evidenced by adverse changes in the payment history of the borrower, or the local economic conditions are associated with default.

Loans valued at $667,148 were reassessed for collectability and based on management's judgement of current evidence for reduced collectability, a net provision of $333,574 was taken at December 31, 2017. Management's assumptions and estimates over loan history have been used for the individual assessment of loans, may change over each reporting period and may significantly affect the organization's operating results.

IFRS 15 Revenue from Contracts with Customers:

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers (IFRS 15). IFRS 15 sets out principles for the nature, amount, timing, and uncertainty of revenue and cash flows arising from the corporation's contracts with customers. The model features a principle based five-step model for revenue recognition, with exceptions for financial instruments, insurance contracts and leases which fall under the scope of other IFRSs. Premium and other revenue including interest income is not expected to be impacted. IFRS 15 is effective from January 1, 2018.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 – *Leases* ("IFRS 16"), which replaces IAS 17 – *Leases* ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained. IFRS 16 will be applied retrospectively for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has also been applied.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 to establish a comprehensive global insurance standard, which provides guidance on the recognition, measurement, presentation and disclosures of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities at their current fulfillment values using one of three approaches. This new standard will be effective for the Corporation on January 1, 2021 and will be applied retrospectively with restatement of comparatives unless impracticable.

4. Premium Income

Premium income was $30.2 million for the year ended December 31, 2017, compared to $27.1 million for 2016. Differential premiums are calculated based on the amount of each credit union's insured deposits at the end of its fiscal year and on various risk criteria which generate a risk rating based on a points system. Effective January 1, 2015, the Corporation implemented a new differential premium score determination system (DPSD). The DPSD system determines a score based on a credit union's reported regulatory capital level (64% weighting) and its corporate governance score as determined by the results of its most recent on-site examination (36% weighting). The score is measured on a continuous scale based on the existing premium rate range ($1.00 to $3.00 per $1,000 of insured deposits). The effective rates (per $1,000 of insured deposits) are determined as follows:

DPSD Score	Premium Rate Calculation
Greater than or equal to 90 points	$1.00
Greater than 0 points and less than 90 points	$1.75 -(DPS Score/90 x $0.75)
0 points	$3.00

At December 31, 2017, DICO reported deferred premium income of $989,000 (2016 - $781,000), which represents the balance of pro-rated premiums for the credit unions whose fiscal year straddles the Corporation's fiscal year end.

5. Investments

The Corporation's current and non-current investments are classified as available-for-sale and are measured at fair value with unrealized gains and losses recorded in the Statement of Accumulated Other Comprehensive Income (Loss) until the investment is sold or assessed as impaired. As of December 31, 2017, the current highly liquid investments have a weighted-average yield of 0.96% (2016: 0.67%). The non-current investments are primarily laddered Government bonds and Government floating rate notes with a remaining weighted average term to maturity of greater than one year. The weighted average yield of these investments was 1.34% (2016: 1.13%). The Corporation has contracted with the Ontario Financing Authority to manage the investment portfolio. The composition of the Corporation's investments reflects the nature of the Corporation's potential insurance obligations and is structured to comply with the requirements under both the *Income Tax Act*, the *Credit Unions and Caisses Populaires Act, 1994* and Regulation 237/09.

	December 31, 2017			December 31, 2016		
	Amount ($ thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount ($ thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Bankers' acceptances / Bank deposit notes	61,462	1.31%	36	73,847	0.81%	59
Treasury bills - Canada and Provincial	92,249	0.97%	78	59,993	0.50%	87
Canada Housing Trust floating rate bond	-	-	-	38,288	0.70%	103
Province of Ontario floating rate notes	32,276	0.88%	337	10,040	0.72%	265
Total current investments	185,987	0.96%	109	182,168	0.67%	89
Laddered Government bonds	51,808	1.39%	610	46,908	1.13%	604
Province of Ontario floating rate bond (up to two years)	16,186	1.19%	603	-	-	-
CUCO Co-op Class B investment shares (acquired from liquidated credit unions)	-			314		
Total non-current Investments	67,994	1.34%	608	47,222		
Total Investments		253,981		229,390		

Included in the total non-current investments for 2016 were the CUCO Co-op Class B shares purchased from 19 credit unions in liquidation due to winding down their businesses. In 2017, the Board of CUCO Cooperative Association received approval from its members to wind up the affairs of the company by the end of 2017. The Co-op's investment shares were redeemed during the year and distributed to shareholders in the form of return of capital and dividends on shares. The Corporation has received such redeemed distributions in the amount of $304,000 and has taken a permanent impairment charge on the CUCO Class B shares of $10,000.

Fair value hierarchy:

The Corporation uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. As of December 31, 2017, and 2016, the Corporation's financial instruments were valued as follows:

Available-for-sale financial assets		
($ thousands)	2017	2016
Level 1	253,981	229,076
Level 2	-	314
Level 3	-	-
Total	253,981	229,390

The different levels have been defined as follows:
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

No investments have moved between hierarchy levels during the year.

6. Deposit Insurance Advances Recoverable And Accrual For Deposit Insurance Claims

The provision for losses includes specific provisions for known or likely losses resulting from specific credit union failures and a general provision for losses not identified with specific credit unions. The portion of the provision for losses recorded in the year and in previous years, which has not yet required payment by the Corporation is shown in liabilities on the Statement of Financial Position as "Accrual for deposit insurance claims." When funds advanced in respect of deposit insurance claims are in excess of the estimated loss provision at the end of the reporting period, the balance is reported as "Deposit insurance advances recoverable" on the Statement of Financial Position. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for losses included in "Accrual for deposit insurance claims" remains at $3,000,000 at December 31, 2017 (2016 - $3,000,000), and is calculated in accordance with the methodology as described in note 3(b).

	2017			2016		
($ thousands)	Deposit Insurance Advances Recoverable	Provision for deposit insurance claims	Net	Deposit Insurance Advances Recoverable	Provision deposit insurance claims	Net
Balance at beginning of year	6,255	(3,000)	3,255	10,145	(3,000)	7,145
Reduction in general accrual for the year	-	-	-	-	-	-
Net change in specific provision for prior years' losses booked and advanced	(334)	-	(334)	18	-	18
Total net recovery for insurance	(334)	-	(334)	18	-	18
Total cash paid in connection with loans purchased from liquidated credit unions	1,016	-	1,016	337	-	337

($ thousands)	2017 Deposit Insurance Advances Recoverable	2017 Provision for deposit insurance claims	2017 Net	2016 Deposit Insurance Advances Recoverable	2016 Provision deposit insurance claims	2016 Net
Total cash recoveries for prior years' losses	(2,238)	-	(2,238)	(4,425)	-	(4,425)
Net deposit insurance (recoveries)	(1,222)	-	(1,222)	(3,908)	-	(3,908)
Total net change	(1,556)	-	(1,556)	(3,890)	-	(3,890)
Balance at end of year	4,699	(3,000)	1,699	6,255	(3,000)	3,255

7. Property, Plant and Equipment

($ thousands)	Furniture and Fixture	Office Equipment	Computer and Related Equipment	Software	Leasehold Improvement	Total
Cost or deemed cost						
Balance at January 1, 2016	540	69	2,051	843	528	4,031
Additions	-	-	37	14	-	51
Disposals	(11)	-	(15)	-	-	(26)
Balance at December 31, 2016	529	69	2,073	857	528	4,056
Additions	2	-	98	36	-	136
Disposals	(1)	-	(16)	-	-	(17)
Balance at December 31, 2017	530	69	2,155	893	528	4,175
Depreciation						
Balance at January 1, 2016	477	60	1,865	788	438	3,628
Depreciation for the year	12	2	93	35	57	199
Disposals	(9)	-	(14)	-	-	(23)
Balance at December 31, 2016	480	62	1,944	823	495	3,804
Depreciation for the year	10	2	88	30	33	163
Disposals	(1)	-	(16)	-	-	(17)
Balance at December 31, 2017	489	64	2,016	853	528	3,950
Carrying amount						
At December 31, 2016	49	7	129	34	33	252
At December 31, 2017	41	5	139	40	-	225

8. Intangible Assets

The intangible asset, a web-based software tool used by the credit unions for the electronic filing of financial data, was fully amortized in 2016. The software was replaced by another web-based reporting system designed to improve the robustness and flexibility of the Corporation's online reporting solution. The new reporting tool was developed by internal staff and the cost was fully recognized in the Statement of Operations in 2016.

9. Employee Benefits

(i) Pension plan

The Corporation operates a defined contribution pension plan for all eligible employees. In addition, the organization accrues benefits to a Supplemental Pension Plan and an Auxiliary Pension Plan (both non-registered). The Supplemental Pension Plan provides the same benefit as the registered plan on the portion of an employee's income in excess of the registered plan limits. The Auxiliary Pension Plan provides an additional defined contribution amount for the former CEO of the Corporation. The total pension expense for the Corporation, charged to the Statement of Operations and Changes in the Deposit Insurance Reserve Fund in 2017 was $487,000 (2016 - $501,000). Total accrued pension plan benefits as at December 31, 2017, amounted to $1,845,000 (2016 - $1,790,000).

(ii) Future non-pension post-employment benefits

The Corporation accounts for the current value of future non-pension post-employment benefits related to the extended health, dental and life benefits plan.

A full triennial valuation of the defined benefits plan was completed by an independent actuarial firm in 2017. The triennial valuation resulted in an overall net loss of $373,000 (demographic gains of $312,000, financial losses of $610,000 and experience losses of $76,000). The valuation of the benefit obligations is estimated using the Projected Unit Credit method. The accrued benefit liability as at December 31, 2017, as actuarially determined, was $3,924,000 (2016 - $3,409,000). The annual benefit cost, including current service cost and interest cost amounted to $266,700 (2016 - $252,000).

The assumptions used in the Actuarial valuation report as at December 2017, for the future benefits obligations, consisted of the following: discount rate of 3.50% (2016 - 4.00%), rate of salary increases of 2.60% (2016 - 3.00%) and immediate trend rate in health care costs of 5.26% (2016 - 4.97%), grading down to 4.5% per annum by 2032. Mortality improvement scale MI-2017 was adopted for 2017. The Corporation measures its accrued benefit obligations as at December 31st.

Change in defined benefit obligation ($ thousands)	December 31, 2017	December 31, 2016
Benefit obligation at beginning of year	3,409	3,184
Current service cost	132	124
Interest cost	134	129
Benefit payments	(125)	(76)
Re-measurements of the effect of changes in assumptions included in OCI	374	48
Defined benefit obligation at end of year	3,924	3,409

Sensitivity analysis: ($ thousands)	December 31, 2017	December 31, 2016
1. Present value of defined benefit obligation		
Discount rate - 25 basis points	4,113	3,567
Discount rate + 25 basis points	3,748	3,261
Health care cost trend rates -100 basis points	3,315	2,843
Health care cost trend rates +100 basis points	4,710	4,140
Mortality assumption – 1-year life expectancy	3,733	3,241
Mortality assumption + 1-year life expectancy	4,123	3,582
2. % impact on the defined benefit obligation		
Discount rate - 25 basis points	4.82%	4.64%
Discount rate + 25 basis points	-4.50%	-4.34%
Health care cost trend rates -100 basis points	-15.53%	-16.61%
Health care cost trend rates +100 basis points	20.01%	21.46%
Mortality assumption – 1-year life expectancy	-4.86%	-4.93%
Mortality assumption + 1-year life expectancy	5.08%	5.1%
3. Change in the defined benefit obligation		
Discount rate - 25 basis points	189	158
Discount rate + 25 basis points	(177)	(148)
Health care cost trend rates -100 basis points	(610)	(566)
Health care cost trend rates +100 basis points	785	732
Mortality assumption – 1-year life expectancy	(191)	(168)
Mortality assumption + 1-year life expectancy	199	174
4. Weighted average duration of defined benefit obligation (in years)		
Discount rate - 25 basis points	18.83	18.16
Discount rate + 25 basis points	18.42	17.77

The Corporation has also implemented a human resources retention plan to ensure effective transition and succession planning is in place for key management personnel. Total accrued retention benefits were $570,000 at December 31, 2017 (2016 - $1,044,000).

The summary of employee accrued benefit liabilities (non-current) are as follows:

($ thousands)	December 31, 2017	December 31, 2016
Employee pension benefits	1,845	1,790
Employee future non-pension post-employment benefits	3,924	3,409
Retention benefits for key management personnel	570	1,044
Total	6,339	6,243

10. Operating Leases

The non-cancellable annual operating lease payments for the Corporation are summarized as follows:

($ thousands)	2017	2016
Less than 1 year	157	71
Between 1 and 5 years	68	223
More than 5 years	-	-

Under the operating lease for premises the Corporation is required to pay property taxes and common area maintenance costs, which are recognized as an expense and are approximately $291,000 per annum. The current occupancy lease of the main office is due to expire on August 5, 2019.

11. Income Taxes

Income tax expense reported in the Statement of Operations and Changes in the Deposit Insurance Reserve Fund is as follows:

($ thousands)	2017	2016
Profit before income tax	22,792	20,489
Income tax using the combined statutory rate 26.5%	6,040	5,430
Income not included for tax purposes	(8,048)	(7,260)
Current year losses for which no deferred tax asset was recognized	1,938	1,636
Other, net	70	194
Provision (recovery)	-	-

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

($ thousands)	2017	2016
Deductible temporary differences	4,308	4,180
Tax benefit of loss carry-forwards	16,017	14,130
Total unrecognized deferred tax assets	20,325	18,310

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits.

At December 31, 2017, $60,443 of income tax losses included with the above unrecognized deferred tax assets will expire between 2027 and 2038 (2016 - $53,321 between 2027 and 2036).

12. Related Parties

Transactions with key management personnel

Directors and key management personnel compensation

During the year the Directors received an aggregate remuneration of $188,000 (2016 - $157,000). Total Directors' expense claims were approximately $38,000 (2016 - $30,000). Compensation for the Chair is $500 for each per diem plus an annual retainer of $12,000. The per diem rate for all other Board members is $400 plus an annual retainer of $3,500.

Under the *Public Sector Salary Disclosure Act, 1996*, the Corporation publishes the name, title, salary and taxable benefits for all employees who earned $100,000 or more during 2017. The information is available on the Ministry of Finance website at www.fin.gov.on.ca/en/publications/salarydisclosure.

Other benefits for key management personnel include the organization's contributions to the pension plan and future non-pension post-employment benefits in which all employees are entitled to participate when they meet the qualification criteria. All new key management personnel who joined the organization in 2017 are contractual employees and do not meet the qualification criteria for these benefits.

Key management personnel compensation included:

($ thousands)	2017	2016
Short-term benefits	26	32
Post-employment benefits	95	161
Other long-term and termination benefits	-	55
Total	121	248

13. Contingency

The Corporation may be exposed to various legal actions in the normal course of business and includes when acting in the capacity of administrator or liquidator of a credit union. As of December 31, 2017, there were no legal claims pending against the Corporation.

14. Risks Arising From Financial Instruments

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counter party to a financial instrument fails to meet its contractual obligations and arises principally from the Corporation's investment securities. The Corporation minimizes its credit risk by investing in high quality financial instruments and by limiting the amount invested in any one counter party. All investments in the DIRF are limited to those permitted by legislation, by the terms of the line of credit agreement with the OFA and to any limits made by the Corporation's investment policy. For details of the composition and credit risks of investments, please refer to note 5 Investments. As a deposit insurer under the CUCPA, the Corporation may at times be obligated to make payments to insured depositors in the event of a credit union failure, which results in deposit insurance advances recoverable by the Corporation. Realization on its claims is largely dependent on the credit quality or value of assets held within the estates of failed credit unions. The Corporation is directly involved in the asset realization process of these credit unions in liquidation in order to mitigate credit risk and minimize any potential loss to the Corporation.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations to depositors as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations, if any; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, 80% of the Corporation's investments are held in highly liquid short-term instruments. Further, the Corporation maintains a line of credit approved by the Minister of Finance of $400 million that can be drawn down to provide liquidity.

The terms of the line of credit require the Corporation to liquidate its investments before it can borrow above $20 million. The revolving credit facility has a five-year term effective from January 1, 2014 to December 31, 2018. Interest would be payable at an annual rate equal to the province's cost of funds for borrowings for a three-month term, plus an additional 0.575%, as determined by the OFA at the commencement of each three-month period.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect income or the value of the holdings of financial instruments. The Corporation does not have any dealings with foreign currency. The primary investment objective is to preserve capital and provide necessary liquidity to pay claims and ongoing operating expenses.

(d) Fair value sensitivity analysis for fixed-rate instruments

The Corporation accounts for its fixed rate financial assets as available-for-sale. Therefore, a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments. A change of 1% in interest rates for the investments at December 31 would have increased or decreased equity by $2,128,000 (2016 - $2,107,000).

(e) Capital management

One of the Corporation's mandates is to enhance the financial soundness of the credit union sector. As of December 31, 2017, the Corporation has a DIRF of $248.8 million, which represents 82 basis points of the sector's estimated insured deposits. The Corporation will continue to build the DIRF to its target of 100 basis points during 2024 assuming premium revenue, loss experience and operating expenses do not significantly deviate from the current assumptions.

15. Fair Value Disclosure

The fair value of financial assets and liabilities, which include cash and cash equivalents, premiums receivable, payables and accruals, employee benefits and accrual for deposit insurance claims, approximate their carrying amounts.

FAIR HYDRO TRUST

Independent auditors' report

To the Unitholders of the **Fair Hydro Trust**

We have audited the accompanying financial statements of the **Fair Hydro Trust**, which comprise the balance sheet as at December 31, 2017, and the statements of operations and comprehensive income, and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with United States generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **Fair Hydro Trust** as at December 31, 2017, and the results of its operations and its cash flows for the period then ended in accordance with United States generally accepted accounting principles.

Ernst & Young LLP
Chartered Professional Accountants

Toronto, Canada
April 25, 2018

FAIR HYDRO TRUST

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the 12 days ended December 31 *(thousands of dollars)*	**2017**
Revenues	
Interest income	**858**
Cost recovery revenue *(Note 8)*	**2,855**
	3,713
Expenses	
Interest *(Notes 4 and 8)*	**882**
Operations, maintenance and administration	**2,831**
	3,713
Net income and comprehensive income	**-**

See accompanying notes to the financial statements

FAIR HYDRO TRUST

STATEMENT OF CASH FLOWS

For the 12 days ended December 31 *(thousands of dollars)*	**2017**
OPERATING ACTIVITIES	
Net income	**-**
Adjustment for non-cash items:	
Amortization of deferred issuance fees *(Note 4)*	**24**
Increase in unbilled cost recovery revenue	**(6,600)**
Increase in accounts payable and accrued charges	**2,831**
Increase in payable to OPG	**5,734**
Increase in interest payable	**858**
Increase in advances from IESO	**3,153**
Cash provided by operating activities	**6,000**
INVESTING ACTIVITIES	
Acquisition of financing receivables *(Note 4)*	**(1,179,000)**
Cash used in investing activities	**(1,179,000)**
FINANCING ACTIVITIES	
Net issuance of revolving warehouse debt to third parties *(Note 4)*	**599,690**
Issuance of revolving warehouse debt to OPG *(Note 4)*	**577,710**
Contribution from unitholders *(Note 7)*	**10**
Cash provided by financing activities	**1,177,410**
Net increase in cash during the period	**4,410**
Cash, beginning of period	**-**
Cash, end of period	**4,410**

See accompanying notes to the financial statements

FAIR HYDRO TRUST

BALANCE SHEET

As at December 31
(thousands of dollars)

	2017
ASSETS	
Current	
Cash	**4,410**
Unbilled cost recovery revenue *(Note 8)*	**6,600**
	11,010
Non-current	
Financing receivables *(Note 4)*	**1,179,000**
Deferred issuance fees *(Note 4)*	**1,576**
	1,180,576
Total assets	**1,191,586**

See accompanying notes to the financial statements

FAIR HYDRO TRUST

BALANCE SHEET

As at December 31 *(thousands of dollars)*	2017
LIABILITIES AND UNITHOLDERS' CAPITAL	
Current	
Accounts payable and accrued charges	2,831
Payable to OPG *(Notes 5 and 8)*	5,734
Interest payable *(Note 4)*	858
Advances from IESO *(Note 8)*	3,153
	12,576
Non-current	
Long-term debt *(Note 4)*	1,179,000
	1,179,000
Unitholders' capital *(Note 7)*	10
Total liabilities and unitholders' capital	1,191,586

Commitments *(Note 9)*

See accompanying notes to the financial statements

Computershare Trust Company of Canada,
in its capacity as trustee of **Fair Hydro Trust**,
by **Ontario Power Generation Inc.**,
not in its individual capacity but solely as Manager

John Lee

John Lee
Vice President – Treasurer
Ontario Power Generation Inc.

Fair Hydro Trust

NOTES TO THE FINANCIAL STATEMENTS

For the 12 days ended December 31, 2017
(thousands of dollars unless otherwise stated)

1. DESCRIPTION OF BUSINESS

Fair Hydro Trust (FHT or the Trust) is a special purpose trust established under the laws of the Province of Ontario by Computershare Trust Company of Canada, acting as Issuer Trustee, pursuant to the Declaration of Trust dated December 20, 2017, and was caused to be established by Ontario Power Generation Inc. (OPG). The Trust was established in connection with Ontario's Fair Hydro Plan (Fair Hydro Plan) aimed at reducing electricity bills for residential, farm, small businesses and other eligible consumers (Specified Consumers) in the province by refinancing a portion of the Global Adjustment costs over a longer period of time. The Global Adjustment includes the difference between Ontario's electricity market clearing price used to dispatch generation and the prices paid to contracted and regulated generators in the province, and the cost of conservation and demand management programs. On June 1, 2017, the *Ontario Fair Hydro Plan Act, 2017* (the Fair Hydro Act or the Act) received Royal Assent and the associated general regulation came into force in June 2017. The Act established a framework under which the costs and benefits associated with the Government of Ontario's clean energy initiatives are to be allocated between present and future consumers of electricity under the Fair Hydro Plan. The general regulation provides details on the structural, operational and financial elements required to implement the Fair Hydro Plan.

Pursuant to the Act, effective May 1, 2017, the Independent Electricity System Operator (IESO) began to defer the collection of a portion of the Global Adjustment costs. The Act allows the IESO to transfer a portion of the deferred balance to a financing entity that would fund the deferral in exchange for an irrevocable right to recover the balance and associated financing and other costs from Specified Consumers in the future (Investment Interest). The legislation appointed OPG as Financial Services Manager under the Act and conveyed upon it statutory obligations, including the creation of one or more financing entities that may acquire Investment Interests from the IESO. The Trust is a financing entity under the Act.

The Declaration of Trust established FHT to carry on activities for the exclusive benefit of its unitholders, FHP2017 Inc. (FHP2017), a wholly owned subsidiary of OPG, and BNY Trust Company of Canada, the Indenture Trustee (BNY or Indenture Trustee) under the Master Trust Indenture (collectively, the Unitholders). The beneficial interest and rights generally of the Unitholders in the Trust are limited to the right to participate in distributions when and as declared by the Issuer Trustee and distributions upon the termination of the Trust. The legal ownership of the Trust's property and the right to conduct the activities of the Trust are vested exclusively in the Issuer Trustee and no Unitholder has any right of ownership in any of the Trust's property. The Unitholders will also not be subject to any liability arising out of the activities of the Trust.

In order for the Trust to finance the Investment Interest acquired from the IESO, it will incur senior debt from capital markets and subordinated debt from OPG. The Trust's investment will attract financing amounts and other related fees.

Fair Hydro Trust

NOTES TO THE FINANCIAL STATEMENTS

For the 12 days ended December 31, 2017
(thousands of dollars unless otherwise stated)

Concurrent with every issuance of the Trust's senior notes, it is expected that OPG will purchase subordinated debt of the Trust in an aggregate amount not to exceed 49 percent of the Trust's total outstanding debt, with funding for 44 percent of the total outstanding debt to be provided by the Province of Ontario (Province) through equity injections in OPG and five percent to be provided by OPG. The subordination level may vary over time, but must at least equal to, or be greater than 35 percent of the Trust's total outstanding debt.

The Issuer Trustee, on behalf of the Trust, has entered into a Management Agreement with OPG, as manager, whereby all of the powers and duties of managing the Trust have been delegated to OPG. OPG is entitled to charge the Trust a management service fee, comprised of a base fee and a variable fee, and to recover costs and expenses incurred by OPG on behalf of the Trust or in relation to the establishment, management and administration of the Trust and its Investment Interest without margin. All fees to be charged by OPG as Financial Services Manager are subject to the provisions outlined in sections 10.1 to 10.15 of the general regulation of the Act and are subject to an annual review by the Ontario Energy Board (OEB). OPG's entitlement to fees is subject to the payment priorities set forth in the Master Trust Indenture.

The IESO is required under the general regulation to pay and remit to the Trust any amounts charged to the IESO by the Trust in respect of carrying costs incurred from June 1, 2017 to July 31, 2021. Carrying costs include all funding costs, such as interest on all notes outstanding, and other expenses of the Trust, other than repayment of debt principal. Commencing May 1, 2021, a charge in respect of the Clean Energy Adjustment will be included on invoices by local electricity distribution companies sent to Specified Consumers and will be collected and remitted to the Trust through the IESO. The three-month overlap in 2021 is intended to cover the billing and collection lag from the introduction of the Clean Energy Adjustment.

2. BASIS OF PRESENTATION

These financial statements have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP) and are presented in Canadian dollars.

The Trust has evaluated subsequent events and transactions through April 25, 2018 and concluded that there were no events, other than those disclosed in Notes 4 and 8, that require disclosure in the notes to these financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Use of management estimates

The preparation of the Trust's financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of

Fair Hydro Trust

NOTES TO THE FINANCIAL STATEMENTS

For the 12 days ended December 31, 2017
(thousands of dollars unless otherwise stated)

assets and liabilities and the reported amounts of revenues and expenses. On an ongoing basis, management reviews these estimates. Changes in facts and circumstances may result in revised estimates and actual results could differ materially from those estimates.

Cash

Cash represents restricted cash on deposit that is subject to contractual restrictions. Pursuant to the Master Trust Indenture, all of the Trust's bank accounts are under the exclusive control of the Indenture Trustee and have been established in its name. All amounts on deposit are restricted in purpose and the distribution of use is subject to the order of priority outlined in the Master Trust Indenture.

Unbilled cost recovery revenue

Unbilled cost recovery revenue represents current assets related to revenue that the Trust will invoice the IESO in subsequent months for OPG-incurred costs and Trust-incurred expenses that have not been pre-funded by the IESO. Unbilled cost recovery revenue is recorded in the period in which it is earned and measured at the amount the Trust is entitled to receive from the IESO.

Financing receivables

Financing receivables consist of the current and irrevocable right to collect payments from Specified Consumers in the future in accordance with the Act and associated general regulation. These amounts are measured at the transaction price entered into with the IESO upon acquisition and subsequently measured on an amortized cost basis. The basis of amortization follows the effective interest method.

Financial assets and financial liabilities

Financial assets and financial liabilities are measured at amortized cost. Financial instrument transactions are recorded at fair value on the transaction date.

Deferred issuance fees

The Trust capitalizes the costs of obtaining a short-term warehouse credit facility and records the costs as a separate deferred asset regardless of whether the credit facility has an outstanding balance. The deferred asset is amortized on a straight-line basis over the term of the related credit facility and included in interest expense.

Advances from IESO

Advances from IESO represent a current liability for the amount of pre-funding received from the IESO related to expected carrying costs calculated under an accrual basis of accounting. The pre-funding of carrying costs is required as the Trust is virtually debt funded and has no cash at inception to settle its liabilities. The balance of the liability is reduced when the corresponding expense is incurred or accrued by the Trust.

Fair Hydro Trust

NOTES TO THE FINANCIAL STATEMENTS

For the 12 days ended December 31, 2017
(thousands of dollars unless otherwise stated)

Interest income

Interest income represents the amount of accretion of the financing receivables balance calculated on a tranche-by-tranche basis using the effective interest rate of each underlying debt issuance.

Revenue recognition

Revenue is recognized as earned when the related expense is incurred or accrued. Collection of carrying costs from the IESO up to July 31, 2021 is considered to be reasonably assured, as the IESO is required by the general regulation of the Act to pay the carrying costs of the Trust up to this date.

The Trust is considered the principal for cost recovery revenues related to Trust-incurred third party costs, while it is considered an agent acting on behalf of OPG for cost recovery revenues related to OPG's fees as Financial Services Manager. Accordingly, the Trust reports cost recovery revenues related to Trust-incurred third party costs on a gross basis, while revenues related to OPG's management fees payable to OPG, including OPG-incurred third party costs and direct costs of OPG employees exclusively dedicated to the activities of the Trust, are reported net of the related costs. All cost recovery revenues are charged without margin.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly arm's-length transaction between market participants at the measurement date. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model.

Income taxes

Under the terms of the Trust, all taxable income will be payable to the Unitholders so that the Trust will not have any liability for income tax. As such, no provision for income taxes is recorded in these financial statements.

Recent accounting pronouncements not yet adopted

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes nearly all existing revenue recognition guidance, including industry-specific guidance, under US GAAP. Effective January 1, 2018, the Trust adopted Topic 606 to recognize its revenues, utilizing the modified retrospective approach to complete the transition. No material differences in the timing or amount of revenue recognition have been identified as a result of the adoption of the new standard.

Fair Hydro Trust

NOTES TO THE FINANCIAL STATEMENTS

For the 12 days ended December 31, 2017
(thousands of dollars unless otherwise stated)

Restricted cash

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The guidance will be applied retrospectively and is effective for the Trust's 2018 fiscal year, including interim periods. The Trust will apply this update beginning January 1, 2018 and is in the process of evaluating any additional disclosures required.

4. LONG-TERM DEBT, FINANCING RECEIVABLES, AND DEFERRED ISSUANCE FEES

On December 21, 2017, the Trust entered into the following supplemental indentures under the Master Trust Indenture for the provision of an aggregate of approximately $1.569 billion in short-term indebtedness (collectively, the Warehouse Facilities):

- a senior warehouse facility with certain commercial paper conduit purchasers and financial institutions, for the provision of an aggregate maximum principal amount of $800,000 floating rate variable funding (Senior Warehouse Facility), of which $601,290 was drawn as of December 31, 2017;

- a subordinated warehouse facility with OPG for the provision of an aggregate maximum principal amount of $611,765 floating rate variable funding (Subordinated Warehouse Facility), of which $459,810 was drawn as of December 31, 2017; and

- a junior subordinated warehouse facility with OPG for the provision of an aggregate maximum principal amount of $156,863 floating rate variable funding (Junior Subordinated Warehouse Facility), of which $117,900 was drawn as of December 31, 2017.

The issuances of the senior, subordinated and junior subordinated notes payable under the Warehouse Facilities were used to acquire a $1.179 billion Investment Interest from the IESO on December 21, 2017, which has been classified as a financing receivable on the balance sheet.

As the terms of the Warehouse Facilities do not expire until December 2019, the outstanding balances have been classified as long-term debt to reflect the terms and substance of the agreements.

Fair Hydro Trust

NOTES TO THE FINANCIAL STATEMENTS

For the 12 days ended December 31, 2017
(thousands of dollars unless otherwise stated)

As at December 31, 2017, long-term debt consisted of the following[1]:

	2017
Senior secured notes payable	
2.32% due 2019	**601,290**
Subordinated secured notes payable	
2.42% due 2019	**459,810**
Junior subordinated secured notes payable	
2.42% due 2019	**117,900**
Long-term debt	**1,179,000**

[1] The interest rates disclosed reflect the weighted average interest rates during the period the notes were outstanding from December 21, 2017 to December 31, 2017. Interest on these notes is payable monthly on the 15th day of each calendar month commencing January 15, 2018.

There were no debt repayments made during 2017. Interest payable as at December 31, 2017 was $858.

The total net book value of the secured assets of the Fair Hydro Trust pledged in favour of specified creditors of the Trust, including the senior debtholders and OPG in its capacity as subordinated debtholder and Financial Services Manager under the Act, was approximately $1.190 billion as at December 31, 2017.

The undiscounted contractual maturities, including principal and interest, of long-term debt as at December 31, 2017 are as follows:

	Principal	Interest
2018	-	27,873
2019	1,179,000	27,873
2020	-	-
2021	-	-
2022	-	-
Thereafter	-	-

Fair Hydro Trust

NOTES TO THE FINANCIAL STATEMENTS

For the 12 days ended December 31, 2017
(thousands of dollars unless otherwise stated)

Deferred issuance fees

For the period ended December 31, 2017, deferred issuance fees of $24 were amortized and included as interest expense for the period, which totalled $882.

Subsequent debt issuances

On February 9, 2018, the Trust issued 15-year notes due on May 15, 2033 as set out below, with interest payable semi-annually on May 15 and November 15 of each calendar year. The proceeds were used to repay the majority of the corresponding outstanding balances of the Warehouse Facilities as at December 31, 2017:

- $500,000 of senior notes payable with a coupon interest rate of 3.36 percent and an effective interest rate of 3.44 percent. Following the repayment, the Senior Warehouse Facility had $101,290 outstanding;

- $382,353 of subordinated notes payable with a coupon interest rate of 3.64 percent and an effective interest rate of 3.68 percent. Following the repayment, the Subordinated Warehouse Facility had $77,457 outstanding; and

- $98,040 of junior subordinated notes payable with a coupon interest rate of 3.96 percent and an effective interest rate of 4.01 percent. Following the repayment, the Junior Subordinated Warehouse facility had $19,860 outstanding.

On March 22, 2018 and April 20, 2018, the Trust purchased Investment Interests from the IESO in the amount of $460,000 and $149,000, respectively. Fifty-one percent of the funding requirements for each acquisition totalling $310,590 was financed by the Trust through the Senior Warehouse Facility, 39 percent totalling $237,510 through the Subordinated Warehouse Facility, and the remaining ten percent totalling $60,900 through the Junior Subordinated Warehouse Facility.

On April 24, 2018, the Trust issued 20-year notes due on May 15, 2038 as set out below, with interest payable semi-annually on May 15 and November 15 of each calendar year. The proceeds were used to repay the majority of the outstanding balances in the Warehouse Facilities as at April 20, 2018:

- $400,000 of senior notes payable with a coupon interest rate of 3.52 percent and an effective interest rate of 3.60 percent. Following the repayment, the Senior Warehouse Facility had $11,880 outstanding;

- $305,882 of subordinated notes payable with a coupon interest rate of 3.83 percent and an effective interest rate of 3.88 percent. Following the repayment, the Subordinated Warehouse Facility had $9,085 outstanding; and

- $78,431 of junior subordinated notes payable with a coupon interest rate of 4.21 percent and an effective interest rate of 4.27 percent. Following the repayment, the Junior Subordinated Warehouse facility had $2,329 outstanding.

Fair Hydro Trust

NOTES TO THE FINANCIAL STATEMENTS

For the 12 days ended December 31, 2017
(thousands of dollars unless otherwise stated)

5. PAYABLE TO OPG

The payable to OPG balance represents a current liability related to OPG's general fee for 2017 as Financial Services Manager. Pursuant to the general regulation of the Act, OPG's general fee for 2017 consists of $3,100 plus recovery of all third-party and certain direct costs incurred by OPG between June 1, 2017 and December 31, 2017 on behalf of the Trust, which totalled $2,634. The recoverable costs are inclusive of direct costs of four OPG employees who were dedicated exclusively to the Trust. OPG has submitted its total 2017 general fee of $5,734 to the OEB for review. Refer to Note 8 for more information on OPG's submission to the OEB.

The Trust has recognized recovery from the IESO of OPG's 2017 general fee as unbilled cost recovery revenue in these financial statements.

6. FAIR VALUE MEASUREMENT

The fair values of FHT's financial instruments as at December 31, 2017 are as follows:

	Fair Value	Carrying Value[1]	Balance Sheet Line Item
Financing receivables	1,179,000	1,179,000	Financing receivables
Long-term debt	(1,179,000)	(1,179,000)	Long-term debt

[1] The carrying values of other financial instruments including cash, unbilled cost recovery revenue, accounts payable and accrued charges, payable to OPG, interest payable, and advances from IESO approximate their fair value due to the immediate or short-term maturity of these financial instruments.

Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate.

The fair values of the senior, subordinated and junior subordinated debt are estimated to be equal to their respective carrying values as they are floating rate instruments. The fair values of all three debt tranches would be considered Level 3 in the fair value hierarchy.

For the financing receivables related to the Investment Interest acquired from the IESO, fair value as at December 31, 2017 is estimated to equal the carrying value due to the short period of time that elapsed between the acquisition date of December 21, 2017 and December 31, 2017. The fair value would be considered Level 3 in the fair value hierarchy.

Fair Hydro Trust

NOTES TO THE FINANCIAL STATEMENTS

For the 12 days ended December 31, 2017
(thousands of dollars unless otherwise stated)

7. UNITHOLDERS' CAPITAL

FHP2017 holds one million units representing 99.9999 percent and BNY holds 1 unit or 0.0001 percent of the Trust. The changes in the Unitholders' capital during the period are as follows:

	FHP2017	FHT BNY[1]	Total
Unitholders' capital – December 20, 2017	-	-	-
Contribution by Unitholders	10	-	10
Net income for the period	-	-	-
Unitholders' capital – December 31, 2017	10	-	10

1 BNY's capital is less than one dollar.

8. RELATED PARTY TRANSACTIONS

As FHT's majority unitholder, FHP2017, is a wholly owned subsidiary of OPG and as the Province owns all of the shares of OPG, related parties of the Trust include the Province and entities controlled by the Province, including the IESO. The transactions between the Trust and related parties are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The related party transactions for the period ended December 31 are summarized below:

	2017 Revenue	2017 Expense
IESO		
Cost recovery revenue	2,855	-
2017 OPG general fee[1]	5,734	-
OPG		
2017 OPG general fee[1]	-	5,734
Subordinated and junior subordinated debt interest expense	-	429
	8,589	6,163

1 As set out in Note 3, the Trust is considered to be acting as an agent on behalf of OPG for cost recovery revenues related to OPG's fees as Financial Services Manager and reports these revenues net of the related costs. Given that no margin is applied on any cost recoveries, revenues receivable by the Trust to be remitted to OPG for its fees equal the Trust's expenses, which net to nil in the statement of operations and comprehensive income.

Fair Hydro Trust

NOTES TO THE FINANCIAL STATEMENTS

For the 12 days ended December 31, 2017
(thousands of dollars unless otherwise stated)

The balances between the Trust and its related parties as at December 31 are summarized below:

	2017
Receivable from related party	
IESO[1]	**6,600**
Financing receivables	
IESO	**1,179,000**
Current liabilities	
Payable to OPG	**5,734**
Interest payable to OPG	**429**
Advances from IESO	**3,153**
Long-term debt	
Subordinated notes payable to OPG	**459,810**
Junior subordinated notes payable to OPG	**117,900**

[1] Represents unbilled cost recovery revenue.

In February 2018, OPG submitted to the OEB its general fee for 2017 in the amount of $5,734 for review pursuant to the requirements of the general regulation of the Act. The OEB-approved fee will be remitted to the Trust by the IESO as part of the Trust's carrying costs and the Trust will pay OPG's fees as Financial Services Manager.

The Province has provided a limited guarantee to specified creditors of the Fair Hydro Trust. The limited guarantee would be triggered in the event that the Trust's ability to receive amounts in respect of its Investment Interest to pay for certain funding obligations is adversely affected due to one or more of the following: the Province changes the Fair Hydro Act or any other legislation or regulation; a significant change in Ontario's electricity market undertaken by the Province; or a court declares that the Act is invalid or unconstitutional.

9. COMMITMENTS

Credit facilities

Note 4 outlines the details of the two-year Warehouse Facilities expiring in December 2019 that were established to fund periodic Investment Interest acquisitions from the IESO. The cost of borrowing under the Senior Warehouse Facility is comprised of several components including a commercial paper rate for funding through a securitization

Fair Hydro Trust

NOTES TO THE FINANCIAL STATEMENTS

For the 12 days ended December 31, 2017
(thousands of dollars unless otherwise stated)

conduit, a Canadian dollar offered rate for funding through bank facilities, a margin or program fee, as well as a commitment or utilization fee.

10. ECONOMIC DEPENDENCE

FHT is dependent upon OPG to provide financial management and ongoing administration services pursuant to the Management Agreement between the Trust and OPG.

FHT is dependent upon the IESO to pay and remit carrying costs to the Trust from June 1, 2017 to July 31, 2021 and to remit Clean Energy Adjustment collections from Specified Consumers to the Trust commencing on May 1, 2021.

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Ontario

July 5, 2018

Motor Vehicle Accident Claims Fund

Management Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented in the financial statements. Management, in accordance with Canadian public sector accounting standards, has prepared the financial statements and, where appropriate, included amounts based on Management's best estimates and judgments.

Management agrees with the specialists' work in evaluating the Unpaid Claims amount and has adequately considered the specialists' qualifications in determining amounts and disclosures used in the notes to financial statements. Management did not give any, nor cause any, instructions to be given to specialists with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the specialists' independence or objectivity.

The Motor Vehicle Accident Claims Fund is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems, and practices to provide reasonable assurances that the financial information is reliable and that the assets were safeguarded. Internal audits are conducted to assess management systems and practices and reports are issued to the CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario (the "FSCO") and the FSCO Audit and Risk Committee.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's report outlines the scope of the auditor's examination and report.

Tamie Norn
Senior Manager
Motor Vehicle Accident Claims Fund

Kwan Lee, MAcc, CPA, CA
Chief Accountant
Financial Services Commission of Ontario

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Motor Vehicle Accident Claims Fund

I have audited the accompanying financial statements of the Motor Vehicle Accident Claims Fund, which comprise the statement of financial position as at March 31, 2018, the statements of operations and MVACF deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Motor Vehicle Accident Claims Fund as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
July 5, 2018

Bonnie Lysyk, MBA. FCPA, FCA, LPA
Auditor General

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MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31

	2018	2017
ASSETS		
Current		
Funds on deposit with the Ministry of Finance	$ 50,873,187	$ 50,369,203
Accounts receivable - driver's licence fees (note 3b)	674,278	636,064
Accounts receivable - debtors (note 3c)	44,227,614	42,053,656
Less: allowance for doubtful accounts	34,168,022	32,232,020
	10,059,592	9,821,636
Total current assets	61,607,057	60,826,903
Capital assets (note 4)	553,975	553,975
Less: accumulated amortization	553,975	553,975
	-	-
Unpaid claims recoverable (note 5)	-	263,168
Total assets	**$ 61,607,057**	**$ 61,090,071**
LIABILITIES AND MVACF DEFICIT		
Current		
Accounts payable and accrued expenses	$ 2,644,220	$ 1,345,332
Unpaid claims and adjustment expenses - current (note 5)	26,756,331	30,563,586
Total current liabilities	29,400,551	31,908,918
Employee future benefits obligation (note 3g)	430,805	491,598
Deferred revenue	75,821,513	74,812,114
Unpaid claims and adjustment expenses - long term (note 5)	121,660,478	120,897,539
Total liabilities	227,313,347	228,110,169
MVACF deficit (note 3)	(165,706,290)	(167,020,098)
Total liabilities and MVACF deficit	**$ 61,607,057**	**$ 61,090,071**

See accompanying notes.

APPROVED:

Brian Mills
Chief Executive Officer and
Superintendent of Financial Services
Financial Services Commission of Ontario

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF OPERATIONS AND MVACF DEFICIT
FOR THE YEAR ENDED MARCH 31

	2018	2017
REVENUE		
Fees on issue or renewal of driver's licences	$ 30,452,704	$ 29,986,421
Prior year recoveries	2,138,323	1,736,929
Other revenue	9,097	5,997
Total revenue	32,600,124	31,729,347
EXPENSES		
Change in net unpaid claims and adjustment expenses	(2,781,148)	(3,198,144)
Accident benefit claims payments	17,964,250	21,200,572
Administrative expenses		
Salaries and wages	1,905,234	1,887,374
Employees' benefits	227,972	304,368
Transportation and communication	18,614	18,983
Claims (solicitors' fees, etc.)	3,098,696	2,855,703
Accident benefit claims expense	3,024,629	2,768,963
Other services	2,150,193	2,048,679
Bad debts expense	5,669,254	4,337,891
Supplies and equipment	8,622	5,175
Total expenses	31,286,316	32,229,564
Excess (deficit) of revenue over expenses	1,313,808	(500,217)
MVACF deficit, beginning of year	167,020,098	166,519,881
MVACF deficit, end of year	**$ 165,706,290**	**$ 167,020,098**

See accompanying notes.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31

	2018	2017
OPERATING ACTIVITIES		
Cash inflows		
Fees on issue or renewal of driver's licences	$ 31,423,890	$ 30,571,285
Repayment by debtors	988,738	1,046,000
Prior year recoveries	2,138,323	1,736,929
Other revenue	9,098	5,997
	34,560,049	33,360,211
Cash outflows		
Statutory payments	(25,230,779)	(25,531,740)
Payments to employees	(2,191,247)	(2,171,487)
Administrative expenses	(6,634,039)	(7,365,068)
	(34,056,065)	(35,068,295)
Net cash provided (used) in operating activities	503,984	(1,708,084)
Funds on deposit with the Ministry of Finance, beginning of year	50,369,203	52,077,287
Funds on deposit with the Ministry of Finance, end of year	**$ 50,873,187**	**$ 50,369,203**

See accompanying notes.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

1. STATUTORY AUTHORITY

The Motor Vehicle Accident Claims Fund (MVACF) operates under the authority of the *Motor Vehicle Accident Claims Act* (the *Act*), R.S.O. 1990, Chapter M.41 as amended.

2. MVACF OPERATIONS

MVACF is a program that was created on July 1, 1947 as the Unsatisfied Judgment Fund. Initially, MVACF was required to respond to victims of uninsured motorists and hit-and-run drivers who could not recover damages awarded by the courts from an automobile insurance company. MVACF legislation was amended in the early 1960s, in 1979 with the *Compulsory Automobile Insurance Act*, and in 1990 by the *Insurance Statute Law Amendment Act* which required MVACF to include in its statutory payments, accident benefits on a no-fault basis for the first time. Currently, MVACF responds to claims in the same fashion and with the same exclusions as automobile insurers in Ontario, and provides for two types of coverage: third-party bodily injury and property damage liability (collectively referred to as TPL), and statutory accident benefits or SABS in accordance with legislated requirements. MVACF provides compensation for these types of coverage in claims resulting from automobile accidents involving uninsured or unidentified drivers, when there is no available policy of insurance.

The coverage provided by MVACF is analogous to the minimum required coverage under the standard automobile policy (OAP 1) approved by the provincial regulator. Unlike insurance companies, MVACF does not cover claims where the accidents occur outside of Ontario, except in the case of accident benefits where the Ontario insurer is insolvent. In the cases of insurance company insolvencies where MVACF pays claims for accident benefits, MVACF has powers to assess the industry to recover for claims and adjustment expenses and also has claimant rights against the estate of the insolvent insurer.

MVACF operates administratively under the direction of the Financial Services Commission of Ontario (FSCO) and reimburses FSCO for the costs of the services it provides to MVACF.

The Lieutenant Governor in Council, having regard to the condition of MVACF and the amount paid out of MVACF during any period, may direct payment out of the Province's Consolidated Revenue Fund of such an amount as may be considered necessary or advisable to subsidize and fund MVACF's operations.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES G

The significant accounting policies used in the preparation of these financial statements in accordance with Canadian Public Sector Accounting Standards for government not-for-profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB) are summarized as follows:

a) Driver's Licence Fees and Deferred Revenue

MVACF earns a fee of $15.00 on the issuance or renewal of each driver's five-year licence. The income is earned on a pro-rata basis over the five-year term of the licence and the unearned portion is reflected as deferred revenue.

b) Accounts Receivable – Driver's Licence Fees

Under the *Act*, MVACF receives from the Ministry of Transportation and Plenary a monthly internal transfer and payment representing the driver's licence fee prescribed by *Ontario Regulation 800*. Accordingly, unremitted licence fees are reported as accounts receivable.

c) Accounts Receivable – Debtors

MVACF maintains an accounts receivable portfolio, accumulated over the years as a result of judgments and claims assigned to the Minister of Finance. MVACF will pay damages to injured, not-at- fault victims who have no recourse to liability insurance, on behalf of defendant uninsured motorists. In accordance with the *Act*, these amounts are recoverable from the uninsured motorists. Expected recoverable amounts of $6.9 million (2017 - $4.6 million) increase the accounts receivable – debtors accordingly.

The allowance for doubtful accounts is determined through a process that considers: the age of defendant/debtor, the defendant/debtor's current monthly installment required under the regulations, the amount paid out of MVACF, the activity on the account since the date of the judgment, and the financial status of the defendant/debtor.

The write-off process depends on established criteria that parallel the criteria established by the Ministry of Finance. Criteria would include writing off amounts related to unidentified drivers, uninsured motorists killed at the time of the accident or deceased subsequent to accident, debtor that declared bankruptcy, debts with balances under $50, accounts with no repayments after 3 years with collections efforts exhausted/debtor deported, etc. These criteria are used to select a block of accounts that is reviewed annually by the enforcement and collections staff. The Ministry of Finance, Internal Audit Section audits the identified accounts for potential write-off and provides a certificate of assurance verifying that the established criteria for the write-off have been met. The write-off transaction is authorized by an Order-In-Council (OIC) under the authority set out in the *Financial Administration Act*.

For March 31, 2018, a write-off of $5.9 million was submitted to the Ministry of Finance but has not yet been approved. A write-off of $4.3 million for March 31, 2017 was approved during the year, through an OIC. This write-off is recorded in the current year's financial statements and represents a reduction of the accounts receivable debtors and allowance for doubtful accounts. There is no impact in the current year statement of operations.

Accounts receivables-debtors and the allowance for doubtful accounts are adjusted on receipt of the OIC approving the write off.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Prior Year Recoveries

Prior year recoveries are generated from three main sources: insurance recoveries, reversionary interest (note 6) and recoveries of court costs. MVACF is required under the Statutory Accident Benefits Schedule (SABS) to satisfy the payment of accident benefits claims within specified periods. The timeframe does not allow for a complete investigation into available insurance coverage and in some instances information is withheld by police because of criminal investigations. Accordingly, when new information is available, MVACF may be required to pursue private insurers for recoveries.

From time to time MVACF may also be involved in the defense of uninsured motorists or the Superintendent of the FSCO, where the legal proceedings are deemed frivolous and MVACF is awarded costs by the courts.

Prior year recoveries are recorded in the period they are determined. In the current year, $2.1 million (2017 - $1.7 million) recoveries were recorded but related to prior year claims.

e) Unpaid Claims and Adjustment Expenses

Unpaid claims and adjustment expenses represents the estimated amounts required to settle all unpaid claims, including an amount for unreported claims and claim expenses, and is gross of estimated recoveries and subrogation. Claim liabilities are established according to accepted actuarial practice in Canada as applied to public personal injury compensation plans. They do not reflect the time value of money, because MVACF reports no investment income.

The provision for unpaid claims and adjustment expenses consists of estimates that are necessarily subject to uncertainty, and the variability could be material in the near term. The estimates are selected from a range of possible outcomes and are adjusted up or down, as additional information becomes known during the course of loss settlement proceedings. The estimates are principally based on historical experience but variability can be caused by changes in judicial interpretations of contracts or significant changes in severity and frequency of claims from historical trends. All changes in estimates are recorded in the current period.

MVACF has obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for those payments in the form of structured settlements. Note 6 contains additional analysis related to structured settlements.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Unpaid Claims and Adjustment Expenses (continued)

Settlements occur when there is an irrevocable direction from MVACF to the life insurer to make all payments directly to the claimants. There are no rights under the non-commutable, non-assignable, non-transferable contract that would provide any current or future benefit to MVACF. MVACF remains liable to make payments only in the event that the life insurer fails and only to the extent that Assuris, the life insurance industry's insolvency compensation fund, will not cover payments due. The net risk to MVACF is any credit risk related to the life insurers. This credit risk is deemed nil at March 31, 2018 (2017 – nil) as all insurers are rated AA- or above by Standard & Poor's Rating. There exists the possibility of contingent gains based on the fact that MVACF has purchased insurance on some of the measured lives. Such amounts are described in note 6 – Contingent Gains.

f) Use of Estimates

The preparation of financial statements in accordance with Canadian PSA-GNFPO requires that MVACF's management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates. The most significant estimates relate to the provision for unpaid claims and adjustment expenses, unpaid claims recoverable, contingent liabilities, allowance for doubtful accounts and employee future benefits.

g) Employee Future Benefits Obligation

MVACF's employees are entitled to benefits that have been negotiated centrally for Ontario Public Service employees or required by the Management Board of Cabinet's Compensation Directive. The future liability for benefits earned by MVACF's employees is recognized in the Province of Ontario's (the Province) consolidated financial statements.

While the Province continues to accrue for these costs each year and fund them annually when due, MVACF also recognizes the liabilities pertaining to a basic severance entitlement and compensated absences components of its employee future benefits costs in these financial statements. When these costs are funded by the Province when due, MVACF derecognizes these liabilities in the year.

The cost of other non-pension post-employment benefits is determined and funded on an ongoing basis by the Province and accordingly is not included in these financial statements.

h) Financial Instruments

MVACF follows PSA-GNFPO pertaining to financial instruments. Under these standards, all financial instruments are included on the statement of financial position and are measured either at fair value or at cost or amortized cost. MVACF's accounts receivable, and the accounts payable and accrued liabilities are recorded at cost in the financial statements.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

4. CAPITAL ASSETS

Leasehold improvements, computer equipment, furniture and fixtures, and office equipment are carried at cost less accumulated amortization. MVACF provides for amortization on a straight-line basis over the term of the lease (for leasehold improvements) or over the useful life of the asset. Accordingly, leasehold improvements and furniture and fixtures are amortized over 5 years, while computer equipment and office equipment are amortized over 3 years.

(in dollars)	2018		
	Cost	**Accumulated Amortization**	**Net Book Value**
Computer equipment	$ 30,153	$ 30,153	$ -
Office equipment	7,406	7,406	-
Furniture and fixtures	16,416	16,416	-
Leasehold improvements	500,000	500,000	-
	$ 553,975	$ 553,975	$ -

(in dollars)	2017		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 30,153	$ 30,153	$ -
Office equipment	7,406	7,406	-
Furniture and fixtures	16,416	16,416	-
Leasehold improvements	500,000	500,000	-
	$ 553,975	$ 553,975	$ -

5. UNPAID CLAIMS AND ADJUSTMENT EXPENSES

a) MVACF's unpaid claims and adjustment expenses and unpaid claims recoverable consist of the following:

	2018		2017	
(in thousands of dollars)	**Gross**	**Recoverable**	Gross	Recoverable
ACCIDENT BENEFITS				
Statutory accident benefits	**$110,525**	-	$ 114,954	-
THIRD-PARTY LIABILITY (TPL)				
Property damage	**357**	-	697	4
Bodily injury	**37,535**	-	35,810	259
Total TPL	**37,892**	-	36,507	263
Totals	**$148,417**	-	$151,461	263

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

5. UNPAID CLAIMS AND ADJUSTMENT EXPENSES (continued)

b) The change in gross provision for unpaid claims and adjustment expenses is as follows:

(in thousands of dollars)	**2018**	2017
Balance, beginning of year	**$ 151,461**	$ 154,682
Increase in provision for losses that occurred in prior years	**681**	535
Amounts paid during the year on claims of prior years		
Statutory payments	**(22,537)**	(23,690)
Claims expenses	**(8,105)**	(8,365)
Amounts paid during the year on claims of the current year		
Statutory payments	**(585)**	(481)
Claims expenses	**(210)**	(170)
Provision for losses on claims that occurred in the current year	**27,712**	28,950
Balance, end of year	**$ 148,417**	$ 151,461

6. CONTINGENT GAINS AND LIABILITIES

a) Contingent Gains

Some payments out of MVACF are in the form of structured settlements for accident benefit claims. These claims have guarantee periods ranging from 10 to 30 years and during this period the reversionary interest will be payable to Her Majesty the Queen in right of Ontario, as represented by the Minister of Finance, should the claimant die.

Even though the range of probability that the claimant may die during the guarantee period is slight, MVACF nevertheless has calculated the approximate reversionary interest represented by insurance on the claimant lives as at March 31, 2018 for information purposes.

As at March 31, 2018, the amount paid out of MVACF for accident benefit claims in the form of structured settlements was approximately $72.0 million (2017 - $68.0 million) with applicable reversionary interest of approximately $53.9 million (2017 - $51.6 million).

b) Contingent Liabilities

In accordance with PSA-GNFPO, MVACF makes a provision for a liability when it's both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed annually and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable and it is possible that MVACF's financial position, cash flows or results of operations could be negatively affected by an unfavorable resolution to court decisions.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

7. ROLE OF THE ACTUARY AND AUDITOR h

FSCO retains an independent actuary who acts as MVACF's actuary. The actuary's responsibility is to carry out an annual valuation of MVACF's liabilities, which include the provision for unpaid claims and adjustment expenses in accordance with accepted actuarial practice in Canada. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, recoveries, and expenses, taking into consideration the circumstances of MVACF. The actuary's report outlines the scope of his work and opinion.

The Auditor General of Ontario is appointed as the external auditor of the MVACF with the responsibility to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report thereon to the Audit and Risk Committee of the FSCO. In carrying out her audit, the Auditor General also considers the work of the actuary and his report on the provision for unpaid claims and adjustment expenses. The auditor's report outlines the scope of the audit and her opinion.

8. FINANCIAL INSTRUMENT RISKS

Credit risk is the risk that other parties fail to perform as contracted. MVACF is exposed to credit risk in its financial instruments from accounts receivable – debtors. Credit risk on balances receivable arises from the possibility that the entities which owe money to the Funds may not fulfill their obligation. Collectability is reviewed regularly and an allowance for doubtful accounts, if necessary, is established to recognize the impairment risks identified.

Liquidity risk is the risk that MVACF will not be able to meet its cash flow obligations as they fall due. Liquidity risk arises from accounts payable and accrued expenses, employee future benefits obligation, and unpaid claims and adjustment expenses. The risk is mitigated since the Lieutenant Governor in Council, having regard to the condition of MVACF and the amount paid out of MVACF during any period, may direct payment out of the Province's Consolidated Revenue Fund of such an amount as may be considered necessary or advisable to subsidize and fund MVACF's operations.

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Ontario Pension Board

Actuaries' Opinion to the Directors of the Ontario Pension Board

Aon Hewitt was retained by the Ontario Pension Board ("OPB") to prepare the following actuarial valuations of the Public Service Pension Plan ("PSPP"):

- An actuarial valuation prepared on a funding basis as at December 31, 2016, as described in Note 6 of these financial statements, prepared in accordance with the *Public Service Pension Act* and applicable pension legislation.
- The actuarial valuation prepared on a funding basis as at December 31, 2016 was then rolled forward to December 31, 2017 to determine the pension obligations as at December 31, 2017 for financial statement purposes.

The actuarial valuation of the PSPP prepared on a funding basis as at December 31, 2016 was based on membership data provided by OPB as at December 31, 2016.

We have prepared a valuation of the liabilities as of December 31, 2016 on the basis of the accounting methodology required by the Chartered Professional Accountants of Canada Handbook, Section 4600, as disclosed in Note 6, and extrapolated the liabilities to December 31, 2017. The valuation as at December 31, 2017 was based on assumptions that reflect OPB's best estimates of future events such as future rates of inflation, future retirement rates and future rates of return on the pension fund. The amounts are set out in the statement of changes in pension obligations.

We hereby certify that, in our opinion:

- The data provided to us by OPB as of December 31, 2016 are sufficient and reliable;
- The actuarial assumptions used are appropriate for the purposes of each valuation; emerging experience differing from the assumptions will result in gains or losses which will be revealed in future valuations; and
- The methods used are appropriate for purposes of each valuation and are consistent with the applicable regulatory requirements.

Our valuations have been prepared, and our opinions given, in accordance with accepted actuarial practice.

AON HEWITT

Allan H. Shapira
Fellow of the Canadian Institute of Actuaries

Andrew Hamilton
Fellow of the Canadian Institute of Actuaries

March 2, 2018

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Management's Responsibility for Financial Reporting

The financial statements of the Ontario Pension Board ("OPB") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements are in accordance with Canadian accounting standards for pension plans. Of necessity, many amounts in the financial statements must be based on the best estimates and judgment of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded against unauthorized use or disposition, and proper records are maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout OPB.

The Board of Directors (the "Board") is ultimately responsible for the financial statements of OPB. OPB's Audit Committee assists in this responsibility by reviewing the financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.

Mark J. Fuller
President & CEO

Armand de Kemp
Vice President, Finance

March 2, 2018

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Independent Auditors' Report to the Directors of the Ontario Pension Board

We have audited the accompanying financial statements of the Ontario Pension Board, which comprise the statement of financial position as at December 31, 2017, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Pension Board as at December 31, 2017, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 2, 2018

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Statement of Financial Position

As at December 31 (in thousands of dollars)	2017	2016
Assets		
Investments (Note 4)	$ 26,398,104	$ 24,309,550
Investment-related assets (Note 4)	80,629	84,164
Contributions receivable		
Members	23,378	23,581
Employers	57,124	51,810
Capital assets (Note 5)	1,111	1,564
Total assets	26,560,346	24,470,669
Liabilities		
Investment-related liabilities (Note 4)	29,924	44,661
Accounts payable and accrued charges	47,775	43,489
Contributions payable	763	1,434
Total liabilities	78,462	89,584
Net assets available for benefits	26,481,884	24,381,085
Pension obligations (Note 6)	27,219,906	25,176,603
Deficit (Note 7)	$ (738,022)	$ (795,518)

See accompanying notes

On behalf of the Board:

Geri Markvoort
Chair

Lynne Clark
Chair, Audit Committee

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Statement of Changes in Net Assets Available for Benefits

For the year ended December 31 (in thousands of dollars)	2017	2016
Increase in net assets		
Net investment income (Note 8)	**$ 2,530,601**	$ 1,750,984
Contributions (Note 9)		
Members	**348,145**	339,393
Employers and sponsor	**456,008**	426,013
Transfer of service from other plans	**137,509**	85,441
Increase in net assets	**3,472,263**	2,601,831
Decrease in net assets		
Retirement pension payments	**1,175,117**	1,098,805
Termination and other benefits	**147,889**	145,810
Operating expenses (Note 10)	**48,458**	51,326
Decrease in net assets	**1,371,464**	1,295,941
Net increase in net assets for the year	**2,100,799**	1,305,890
Net assets, at beginning of year	**24,381,085**	23,075,195
Net assets, at end of year	**$ 26,481,884**	$ 24,381,085

See accompanying notes

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Statement of Changes in Pension Obligations

For the year ended December 31 (in thousands of dollars)	2017	2016
Pension obligations, at beginning of year	**$ 25,176,603**	$ 23,509,215
Increase in pension obligations		
Interest on pension obligations	**1,421,852**	1,384,322
Benefits accrued		
Service accrual	**679,342**	630,137
Transfer of service from other plans	**137,509**	85,441
Past service buybacks	**42,491**	42,402
Changes in actuarial assumptions (Note 6)	**778,079**	516,624
Experience losses	**307,036**	253,077
Total increase	**3,366,309**	2,912,003
Decrease in pension obligations		
Benefits paid	**1,323,006**	1,244,615
Total decrease	**1,323,006**	1,244,615
Net increase in pension obligations	**2,043,303**	1,667,388
Pension obligations, at end of year	**$ 27,219,906**	$ 25,176,603

See accompanying notes

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Notes to the Financial Statements

Note 1: *Public Service Pension Act*

Effective January 1, 1990, the Province of Ontario (the "Province") enacted the *Public Service Pension Act* ("*PSPAct*"), 1990 to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan ("PSPP" or the "Plan") are stated in Schedule 1 to the *PSPAct*. Ontario Pension Board ("OPB") is the administrator of the PSPP.

Note 2: Description of PSPP

The following is a brief description of the PSPP. For more complete information, reference should be made to the *PSPAct*.

a) General

The PSPP is a contributory defined benefit pension plan. Membership is mandatory for persons or classes of persons who satisfy the eligibility requirements provided in the *PSPAct*. Persons who are entitled, but not required, to join the Plan, including Deputy Ministers and contract employees, may elect to participate. Under the PSPP, both the members and the employers make contributions. The PSPP is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency (Registration Number 0208777) as a registered pension plan not subject to income taxes.

In 2015, the *Investment Management Corporation of Ontario Act* was proclaimed by the Province, creating the Investment Management Corporation of Ontario ("IMCO"), a new investment management entity that will provide the day-to-day investment management and advisory services to participating organizations in Ontario's broader public sector with the ownership of the investment assets remaining with the participants. OPB and Workplace Safety and Insurance Board are IMCO's founding members and IMCO became fully operational in 2017, at which time IMCO assumed responsibility for OPB's day-to-day investment management functions. OPB retains responsibility for setting the Strategic Asset Allocation ("SAA") and for oversight of IMCO.

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b) Contributions

The PSPP is integrated with the Canada Pension Plan ("CPP"). Contribution rates are 6.4% of the salary on which contributions are made up to the Year's Maximum Pensionable Earnings ("YMPE") and 9.5% of the salary above the YMPE. Employers contribute matching amounts.

Ontario Provincial Police ("OPP") officers are required to contribute an additional 2% of salary, which is matched by the employer. These additional contributions are used to fund an unreduced early retirement provision available to OPP officers meeting a minimum 50 years of age and 30 years of service. The contribution rates for OPP officers, inclusive of the additional 2% of salary, are 9.2% of the salary on which contributions are made up to the YMPE, and 12.3% of the salary above the YMPE. The contribution rates for OPP civilians are 6.775% of the salary on which contributions are made up to the YMPE, and 9.875% of the salary above the YMPE.

Contributions from members and employers are remitted to OPB. The portion of these contributions that exceeds *Income Tax Act* (Canada) limits is transferred to the Province's Public Service Supplementary Benefits Account ("PSSBA").

c) Pensions

A pension is payable at age 65 based on the number of years of credit in the PSPP multiplied by 2% of the average salary during the best consecutive 60-month period, less an offset for integration with the CPP at age 65. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 ("Factor 90") or when the member reaches age 60 and has 20 or more years of credit.

OPP officers are eligible for a pension payable based on the average salary during the best 36-month period. OPP civilians are eligible for a pension payable based on the average salary during the best 48-month period. In addition, OPP officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) Death Benefits

Upon the death of a member or pensioner, benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or retired member's estate.

e) Disability Pensions

Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPP. The amount of the disability pension is dependent on years of credit and average salary.

f) Termination Payments

Members terminating employment before age 55 who are eligible for a deferred pension may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to transfer to another pension plan, or to purchase a life annuity.

g) Escalation of Benefits

Current pensions and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

Note 3: Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared in accordance with Canadian accounting standards for pension plans and present the position of the PSPP as a separate entity independent of the employers and Plan members.

In accordance with Section 4600, Pension Plans, of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook, Canadian accounting standards for private enterprises in Part II of the CPA Canada Handbook have been chosen for accounting policies that do not relate to the investment portfolio or pension obligations to the extent that those standards do not conflict with the requirements of Section 4600.

All of the entities that OPB has an ownership interest in, regardless of whether OPB can control or exercise significant influence, are considered to be investment assets and are presented on a non-consolidated basis.

a) Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts on the statements of changes in net assets available for benefits and changes in pension obligations during the reporting period. Actual results could differ from those estimates. The most significant estimates affecting the financial statements relate to the determination of the pension obligations and the fair values of the Plan's Level 3 investments.

b) Investments and Related Liabilities

Investments are stated at fair value, including accrued income. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

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Fair value of financial instruments is determined as follows:

i. Short-term investments are recorded at cost, which, together with accrued interest or discount earned, approximates fair value.

ii. Bonds and OPB Finance Trust debentures are valued at quoted market prices, where available. For those debt instruments for which quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

iii. Equities are valued at quoted market prices at closing where available. Where quoted market prices are not available, other industry pricing conventions that are used by market participants, such as ask price, are used to estimate the values.

iv. Pooled fund values for publicly traded securities are supplied by the fund managers based upon fair value quotations.

v. Derivative financial instruments such as foreign exchange and bond forwards, equity and fixed income futures contracts, credit default swaps and options are recorded at fair value using year-end market prices where available. For those instruments for which market prices are not available, estimated fair values are determined using appropriate valuation models based on industry-recognized methodologies.

vi. Real estate, consisting primarily of income-producing properties, and participating mortgages are valued at estimated fair value determined by independent appraisals. The cost of properties acquired during the year may be used as an approximation of their fair value where there has been no significant change in fair value. Non-operating real estate investments such as vacant land and real estate assets under construction are carried at their latest independently appraised values, plus any additional development costs.

vii. Private market and alternative investments, which include infrastructure, private equity, private debt and real estate funds and limited partnerships, are valued using the most recently available financial information provided by the fund managers and general partners and adjusted for any transactions during the interim period up to the reporting date of these financial statements.

viii. Mortgages and private debt are valued using discounted future cash flows based on year-end market yields and comparable securities, as appropriate.

c) Revenue Recognition

Investment transactions are recorded on trade date. Interest is recognized on an accrual basis when earned. Dividend income is recognized on the ex-dividend date. Distributions from investments in pooled funds and limited partnerships are recognized when declared by the fund managers and general partners. Since real estate is valued on a fair value basis, depreciation and amortization are not recorded. Interest on participating mortgages is accrued at the rate stated in the instrument, and any participation income is accrued based on an estimate of OPB's participation in the increased value of the properties. Transaction costs are expensed as incurred.

Net investment income also includes fair value changes. Fair value changes represent both realized and unrealized gains and losses. Realized gains or losses are recognized when OPB has transferred to the purchaser the significant risks and rewards of ownership of the investment, the purchaser has made a substantial commitment demonstrating its intent to honour its obligation, and the collection of any additional consideration is reasonably assured.

d) Pension Obligations

Pension obligations are determined based on an actuarial valuation prepared by an independent firm of actuaries using an actuarial valuation report prepared for funding purposes. This valuation uses the projected benefit cost method pro-rated on service and management's best estimate of various economic and non-economic assumptions.

e) Contributions

Contributions due to the PSPP at year-end are recorded as receivable. Transfers into the Plan and purchases of prior service are recorded after cash is received and the transfer or purchase transaction is completed.

f) Capital Assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

Computer equipment	3 years
Leasehold improvements	Remaining term of lease
Furniture and fixtures	10 years

g) Foreign Currency Translation

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The fair values of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

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Note 4: Investments

Investments before allocating the effect of derivative contracts consist of the following:

As at December 31 (in thousands of dollars)	2017	2016
Cash and short-term investments		
Canada	$ 694,554	$ 1,054,549
Foreign	185,345	121,938
	879,899	1,176,487
Bonds and private debt		
Canada	5,739,300	5,738,077
Foreign	538,915	516,459
	6,278,215	6,254,536
Equities		
Canada	2,817,111	2,262,940
Foreign	8,879,873	8,053,841
	11,696,984	10,316,781
Real estate (net of financing, Note 4(h))	4,653,996	4,375,431
Infrastructure	1,434,710	1,238,661
Private equity	1,454,300	947,654
Total investments	26,398,104	24,309,550
Investment-related assets		
Pending trades	13,524	8,547
Derivatives receivable (Note 4(d))	67,105	75,617
Total investment-related assets	80,629	84,164
Investment-related liabilities		
Pending trades	13,988	9,568
Derivatives payable (Note 4(d))	15,936	35,093
Total investment-related liabilities	29,924	44,661
Total net investments	$ 26,448,809	$ 24,349,053

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a) Investment Asset Mix

The Plan's actual and target investment asset mix is summarized below as at December 31:

	2017		2016		
	Asset Allocation %		Asset Allocation %		
	Total Plan	**Target**	Total Plan	Target	SIP&P Range
Asset categories[1]					
Fixed income	**26.6%**	**30.0%**	25.4%	31.0%	10%–45%
Equity	**50.3%**	**45.0%**	51.5%	45.5%	13%–70%
Real assets	**23.1%**	**25.0%**	23.1%	23.5%	20%–47%
Total investments	**100.0%**	**100.0%**	100.0%	100.0%	

1 The asset categories in this Asset Mix table are adjusted to reflect the market exposures after allocating derivatives positions to the asset classes to which they relate, offset by an adjustment to cash and equivalents, included in the fixed income category.

The Plan adopted an updated SAA on June 1, 2017, which is summarized in the Statement of Investment Policies and Procedures ("SIP&P") amended and approved on December 13, 2017. There were no significant changes as a result of that amendment. The transition plan is being phased in over a multi-year period. During this period, the asset mix of the Plan's investments may not fall within the SIP&P ranges. However, the ultimate goal of the Plan is to achieve the specified SIP&P ranges of each asset category by the end of the phase-in period.

For purposes of assessing the investment asset mix of the Plan for SIP&P purposes, the investment asset categories reflect the impact of derivative contracts, and investment-related receivables and liabilities. As at December 31, 2017, the asset mix of the Plan's investments was within the acceptable ranges as specified in the SIP&P effective as at the financial statements date.

b) Financial Instruments Risk

The Plan is subject to financial risks as a result of its investing activities that could impact its cash flows, income, and assets available to meet benefit obligations. These risks include market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. OPB manages these risks in accordance with its SIP&P, which prescribes the asset mix policy, diversification requirements, performance expectations, limits on individual investments, valuation standards, and guidelines for the management of the Plan.

Market Risk – Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market factors. Market risk comprises the following:

(i) Interest Rate Risk – Interest rate risk refers to the effect on the fair value of the Plan's assets and liabilities due to fluctuations in market interest rates. The value of the Plan's investments is affected by changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates and inflation. The Plan has established an asset mix policy that balances interest-rate-sensitive investments with other investments. OPB's fixed income investments have the most significant exposure to interest rate risk. Duration and weighting for the fixed income portfolio are actively managed. Modified duration is a measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. Given the Plan's modified duration of 9 years at December 31, 2017 (2016 – 8 years), a parallel shift in the yield curve of +/-1% would result in an approximate impact of $620 million (2016 – $503 million) on net investments with all other variables held constant. In practice, actual results may differ materially from this sensitivity analysis. See the schedule of fixed income maturities for further information.

(ii) Foreign Currency Risk – Foreign currency exposure arises from the Plan holding foreign currency denominated investments and entering into contracts that provide exposure to currencies other than the Canadian dollar. Fluctuations in the value of the Canadian dollar against these foreign currencies can have an impact on the fair value of investments. In addition to passively hedging a portion of its foreign currency exposure, the Plan also has an active currency hedging strategy in place through the use of foreign exchange forward contracts, which are accounted for at fair value. The total currency exposure, the impact of foreign exchange forward contracts and the net currency exposure are as follows:

As at December 31, 2017 (in thousands of dollars)	Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure
U.S. Dollar	$ 5,413,600	$ 43,141	$ (2,877,822)	$ 2,578,919
Hong Kong Dollar	775,598	67,839	(87,399)	756,038
Chinese Yuan Renminbi	703,603	4,451	(1,399)	706,655
Indian Rupee	518,317	–	(37)	518,280
South Korean Won	446,252	139	–	446,391
Japanese Yen	167,983	249,130	(61,925)	355,188
New Taiwan Dollar	236,635	–	–	236,635
Other	2,627,698	216,110	(1,917,474)	926,334
Total foreign	10,889,686	580,810	(4,946,056)	6,524,440
Canadian Dollar	15,507,325	4,979,387	(562,343)	19,924,369
	$ 26,397,011	$ 5,560,197	$ (5,508,399)	$ 26,448,809

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As at December 31, 2016 (in thousands of dollars)	Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure
U.S. Dollar	$ 5,164,440	$ 773,927	$ (2,771,247)	$ 3,167,120
Hong Kong Dollar	582,987	86,970	(104,600)	565,357
Euro	684,302	368,450	(1,457,110)	(404,358)
Indian Rupee	401,745	2,355	(58)	404,042
South Korean Won	323,312	107	(242)	323,177
Japanese Yen	197,375	226,462	(115,492)	308,345
Chinese Yuan Renminbi	303,015	–	–	303,015
Other	2,230,402	407,051	(1,079,126)	1,558,327
Total foreign	9,887,578	1,865,322	(5,527,875)	6,225,025
Canadian Dollar	14,428,841	5,424,639	(1,729,452)	18,124,028
	$ 24,316,419	$ 7,289,961	$ (7,257,327)	$ 24,349,053

The impact of a 5% absolute change in foreign exchange rates compared to the Canadian dollar, holding all other variables constant, is 5% of the net exposure of the impacted currency, as follows:

		Change in Net Assets Available for Benefits as of	
	Change in Exchange Rates	**December 31, 2017 (in thousands of dollars)**	December 31, 2016 (in thousands of dollars)
U.S. Dollar	+/- 5%	**+/- $ 128,946**	+/- $ 158,356
Hong Kong Dollar	+/- 5%	**+/- 37,802**	+/- 28,268
Chinese Yuan Renminbi	+/- 5%	**+/- 35,333**	+/- 15,151
Indian Rupee	+/- 5%	**+/- 25,914**	+/- 20,202
South Korean Won	+/- 5%	**+/- 22,320**	+/- 16,159
Japanese Yen	+/- 5%	**+/- 17,759**	+/- 15,417
New Taiwan Dollar	+/- 5%	**+/- 11,832**	+/- 11,608
Other	+/- 5%	**+/- 46,317**	+/- 46,091
Total		**+/- $ 326,223**	+/- $ 311,252

(iii) Other Price Risk – Other price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices other than those arising from foreign currency or interest rate risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. An absolute change in the fair value of OPB's investments that are exposed to other price risk will have a direct proportional impact on the fair value of the investments. OPB's investments in equities have the most significant exposure to other price risk. The impact of a 10% absolute change in the price of an investment, holding all other variables constant, is 10% of the net exposure of the impacted investment, as follows:

			Change in Net Assets as of	
Equities	Stock Market Benchmark	Change in Price Index	**December 31, 2017 (in millions of dollars)**	December 31, 2016 (in millions of dollars)
Canadian	S&P/TSX Composite Index	+/- 10%	**+/- $ 281**	+/- $ 285
Foreign	MSCI World (C$)	+/- 10%	**+/- 480**	+/- 499
Emerging	MSCI Emerging Equity Index (C$)	+/- 10%	**+/- 425**	+/- 376
			+/- $ 1,186	+/- $ 1,160

The sensitivity analysis is performed using the investment asset mix weights summarized in Note 4(a).

Credit Risk – The Plan is exposed to the risk of loss through over-the-counter ("OTC") derivative transactions, arising from a default or insolvency of a counterparty. This risk is significantly mitigated by the fact that for any counterparties where the Plan transacts in OTC derivatives of greater than one year in duration, an International Swaps and Derivatives Association ("ISDA") master agreement must be in place accompanied by a Credit Support Annex ("CSA"), which forms part of the ISDA. Under these agreements, collateral is exchanged with counterparties on a daily basis to manage the credit risk arising from any existing OTC derivative contracts with that counterparty. In addition, under the ISDA master agreement for OTC derivatives, the Plan has the right to settle obligations on a net basis in the event of default, insolvency, bankruptcy or other early termination event.

The Plan assumes credit risk exposure through bonds and private debt investments. As at December 31, 2017, the Plan's greatest credit exposure to a securities issuer is with the Government of Canada in the form of interest-bearing securities for $1.6 billion (2016 – with the Government of Canada for $1.4 billion). The credit ratings of the Plan's fixed income and bond investments are as follows:

Credit Rating as of December 31, 2017 (in thousands of dollars)

AAA	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**Not rated**	**Total**
$1,823,697	**$1,925,795**	**$706,133**	**$547,703**	**$130,647**	**$71,615**	**$14,708**	**$1,057,917**	**$6,278,215**

Credit Rating as of December 31, 2016 (in thousands of dollars)

AAA	AA	A	BBB	BB	B	CCC	Not rated	Total
$1,812,196	$1,852,846	$766,512	$639,644	$198,928	$94,038	$4,135	$886,237	$6,254,536

The "not rated" classification in the table above is comprised of fixed income pooled fund and private debt investments as well as any bonds with no rating.

Liquidity Risk – Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and operating expenses as they become due. The typical cash requirements of the Plan are in the form of monthly retirement benefit payments as well as periodic termination and other benefit payments and expenses. The Plan also has financial liabilities in the form of derivatives that generally mature within one year. The cash requirements and the fulfillment of any financial liabilities are typically met through cash sources such as investment income, proceeds from the sales of investments, and member and employer contributions. The majority of the Plan's assets are also invested in securities that are traded in active markets and can be divested on a timely basis. The largest sources of cash during the year were the member, employer and sponsor contributions. The maturities of the Plan's fixed income and bond investments are as follows:

Fixed Income Maturities as of December 31, 2017 (in thousands of dollars)

< 1 year	≥ 1-5 years	≥ 5–10 years	≥ 10 years	Funds	Total
$ 90,552	**$ 736,533**	**$ 1,765,760**	**$ 3,209,936**	**$ 475,434**	**$ 6,278,215**

Fixed Income Maturities as of December 31, 2016 (in thousands of dollars)

< 1 year	≥ 1-5 years	≥ 5–10 years	≥ 10 years	Funds	Total
$ 214,830	$ 1,731,323	$ 1,295,498	$ 2,558,146	$ 454,739	$ 6,254,536

c) Cash and Short-Term Investments

As at December 31 (in thousands of dollars)	**2017**	2016
Canada		
Cash	**$ 49,413**	$ 99,183
Short-term notes and treasury funds	**616,516**	942,205
Term deposits	**27,691**	12,719
Accrued interest	**934**	442
	$ 694,554	$ 1,054,549
Foreign		
Cash	**$ 142,518**	$ 85,308
Short-term notes and treasury funds	**42,825**	36,628
Accrued interest	**2**	2
	$ 185,345	$ 121,938

d) Derivative Contracts

Derivative contracts are financial contracts whose values change as a result of changes in the values of an underlying asset, index, yield curve or foreign exchange rate.

OPB uses derivatives, either directly with counterparties in the OTC market or on regulated exchanges, to facilitate asset allocation, alter the overall risk-return profile of the Plan, and manage or hedge risk. The Plan utilizes the following types of derivative contracts:

Futures Contracts

Futures contracts are standardized agreements that can be purchased or sold on a futures exchange market at a predetermined future date and price specified at origination of the contract, in accordance with terms specified by the regulated futures exchange, and are subject to daily cash margining. These types of derivatives are used to efficiently modify exposures without actually purchasing or selling the underlying assets.

Forward Contracts

Foreign exchange forward contracts are negotiated agreements between two parties to exchange a notional amount of one currency for another at an exchange rate specified at origination of the contract, with settlement at a specified future date. Foreign exchange forward contracts are used by OPB to modify currency exposure for both passive and active hedging.

A bond forward is a contractual obligation to either buy or sell an interest-rate-sensitive financial instrument on a predetermined future date at a specified price. Bond forward contracts are used to modify OPB's exposure to interest rate risk, such as hedging a potential new debenture issue.

Credit Derivatives

Credit default swaps are a type of credit derivative used to transfer credit risk of an underlying financial instrument or group of securities from one party to another. In a credit default swap, the buyer of the swap pays a regular premium to the seller in return for protection against any loss of the notional amount of the underlying securities if a credit event, such as a default, occurs.

Options

Options are contractual agreements under which the buyer has the right, but not the obligation, either to buy (call option) or sell (put option) an underlying asset at a predetermined price on or before a specified future date.

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The following schedule summarizes the notional amounts and fair values of the Plan's derivative contracts held on the indicated dates:

As at December 31, 2017 (in thousands of dollars)	Notional Value	Fair Value Assets	Fair Value Liabilities
Currency derivatives			
Forwards	$ 5,566,963	$ 67,105	$ (15,307)
Equity derivatives			
Futures	388,001	-	(78)
Fixed income derivatives			
Futures	25,039	-	(42)
Credit derivatives			
Credit default swaps	4,481	-	(509)
Value of derivative contracts	$ 5,984,484	$ 67,105	$ (15,936)

As at December 31, 2016 (in thousands of dollars)	Notional Value	Fair Value Assets	Fair Value Liabilities
Currency derivatives			
Forwards	$ 7,301,648	$ 67,625	$ (34,991)
Equity derivatives			
Futures	1,278,932	7,992	–
Credit derivatives			
Credit default swaps	1,100	–	(102)
Value of derivative contracts	$ 8,581,680	$ 75,617	$ (35,093)

The credit default swaps will mature in 2022 and all the other derivative contracts have remaining maturities of less than one year as at December 31, 2017.

e) Securities Lending

At year-end, $74 million (2016 – $865 million) of OPB's securities were on loan to third parties. Pursuant to a securities lending agreement, OPB's custodian arranges the loans and OPB earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with securities that have credit ratings equal to or better than the securities loaned. OPB does not employ cash collateral in its securities lending program. Securities under lending arrangements continue to be recognized as OPB's investments as OPB retains the rewards and risks associated with these securities. At year-end, $78 million (2016 – $910 million) of securities were held as collateral, providing a 5.4% (2016 – 5.1%) cushion against the potential credit risk associated with these securities lending activities.

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f) Fair Values

Canadian accounting standards for pension plans require disclosure of a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the financial statement date. The three levels are defined as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes mutual and pooled funds; hedge funds; Government of Canada, provincial and other government bonds; Canadian corporate bonds; and certain derivative contracts.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes investments in underlying real estate properties, private equity investments and securities that have liquidity restrictions.

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The following tables present the level within the fair value hierarchy for investments and derivatives, excluding pending trades.

As at December 31, 2017 (in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Cash and short-term investments				
Canada	$ 49,413	$ 645,141	$ –	$ 694,554
Foreign	142,517	42,828	–	185,345
Bonds and private debt				
Canada	–	5,394,919	344,381	5,739,300
Foreign	–	433,941	104,974	538,915
Equities				
Canada	2,817,111	–	–	2,817,111
Foreign	8,879,873	–	–	8,879,873
Real estate	–	–	4,653,996	4,653,996
Infrastructure	–	–	1,434,710	1,434,710
Private equity	–	–	1,454,300	1,454,300
Forwards	–	67,105	–	67,105
	$ 11,888,914	$ 6,583,934	$ 7,992,361	$ 26,465,209
Financial liabilities				
Forwards	$ –	$ 15,307	$ –	$ 15,307
Credit default swaps	–	509	–	509
Futures	120	–	–	120
	$ 120	$ 15,816	$ –	$ 15,936

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As at December 31, 2016 (in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Cash and short-term investments				
Canada	$ 99,183	$ 955,366	$ –	$ 1,054,549
Foreign	85,308	36,630	–	121,938
Bonds and private debt				
Canada	–	5,347,555	390,522	5,738,077
Foreign	–	449,669	66,790	516,459
Equities				
Canada	2,262,940	–	–	2,262,940
Foreign	8,053,841	–	–	8,053,841
Real estate	–	–	4,375,431	4,375,431
Infrastructure	–	–	1,238,661	1,238,661
Private equity	–	–	947,654	947,654
Forwards	–	67,625	–	67,625
Futures	7,992	–	–	7,992
	$ 10,509,264	$ 6,856,845	$ 7,019,058	$ 24,385,167
Financial liabilities				
Forwards	$ –	$ (34,991)	$ –	$ (34,991)
Credit default swaps	–	(102)	–	(102)
	$ –	$ (35,093)	$ –	$ (35,093)

There were no significant transfers between Levels 1, 2 or 3 during the years ended December 31, 2017 and 2016.

The following tables present a reconciliation of all Level 3 assets and liabilities measured at fair value for the years ended December 31, 2017 and 2016.

(in thousands of dollars)	**Fair Value as at January 1, 2017**	**Acquisitions**	**Dispositions**	**Issuance of Debt**	**Fair Value Changes**	**Fair Value as at December 31, 2017**
Financial assets						
Private debt						
Canada	**$ 390,522**	**$ 57,140**	**$ (95,442)**	**$ –**	**$ (7,839)**	**$ 344,381**
Foreign	**66,790**	**41,846**	**(3,584)**	**–**	**(78)**	**104,974**
Real estate	**4,375,431**	**1,325,203**	**(80,676)**	**(750,000)**	**(215,962)**	**4,653,996**
Infrastructure	**1,238,661**	**269,274**	**(73,957)**	**–**	**732**	**1,434,710**
Private equity	**947,654**	**612,082**	**(113,248)**	**–**	**7,812**	**1,454,300**
	$7,019,058	**$2,305,545**	**$ (366,907)**	**$ (750,000)**	**$ (215,335)**	**$7,992,361**

(in thousands of dollars)	Fair Value as at January 1, 2016	Acquisitions	Dispositions	Issuance of Debt	Fair Value Changes	Fair Value as at December 31, 2016
Financial assets						
Private debt						
Canada	$ 363,294	$ 91,410	$ (68,053)	$ –	$ 3,871	$ 390,522
Foreign	27,072	44,069	–	–	(4,351)	66,790
Real estate	4,247,082	362,193	(103,736)	(250,000)	119,892	4,375,431
Infrastructure	1,167,558	133,159	(15,131)	–	(46,925)	1,238,661
Private equity	562,587	406,412	(107,631)	–	86,286	947,654
	$ 6,367,593	$ 1,037,243	$ (294,551)	$ (250,000)	$ 158,773	$ 7,019,058

g) Commitments and Guarantees

As at December 31, 2017, OPB has unfunded commitments for certain investments of $1,891 million (2016 – $2,064 million).

OPB has provided a guarantee for the payment of principal and interest on $2,250 million in debentures that were issued by OPB Finance Trust, a trust established for the benefit of OPB and its related entities. Six series of debentures have been issued as at December 31, 2017:

1. $350 million, Series A, 30-year debentures due 2042, with a 3.89% coupon payable semi-annually.
2. $150 million, Series B, 50-year debentures due 2062, with a 3.87% coupon payable semi-annually.
3. $250 million, Series C, 10-year debentures due 2023, with a 2.90% coupon payable semi-annually.
4. $500 million, Series D, 7-year debentures due 2022, with a 1.88% coupon payable semi-annually.
5. $250 million, Series E, 10-year debentures due 2026, with a 2.95% coupon payable semi-annually.
6. $750 million, Series F, 10-year debentures due 2027, with a 2.98% coupon payable semi-annually.

The proceeds from the issuance of the Series A, B, D, E and F debentures were loaned to a number of OPB real estate subsidiaries. In turn, these real estate companies used the proceeds to repay amounts owed to OPB and/or to acquire real estate investments.

The proceeds from the issuance of the Series C debentures were loaned to a real estate trust established for the benefit of OPB.

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OPB's real estate investments are shown net of the OPB Finance Trust debentures and any other financings specifically assumed by these real estate entities.

In addition to the guarantee on the debentures, $16 million of letters of credit are guaranteed by OPB as at December 31, 2017.

h) Real Estate

The following table provides a breakdown of the real estate portfolio by its major components.

As at December 31 (in thousands of dollars)	2017	2016
Assets		
Real estate[1]	$ 2,175,158	$ 2,337,800
Investments[2]	4,814,870	3,576,786
Total assets	6,990,028	5,914,586
Liabilities		
Debentures[3]	2,334,870	1,534,660
Other liabilities, net	1,162	4,495
Total liabilities	2,336,032	1,539,155
Net investment in real estate	$ 4,653,996	$ 4,375,431

1 Real estate investments that are 100% directly owned and held in single-purpose subsidiaries.

2 Investments held through partially owned non-controlling co-ownerships, funds, or similar investment vehicles consist of real estate properties, any related assets and liabilities and participating mortgages. These assets and liabilities are presented on a net basis.

3 The debentures represent securities issued by OPB Finance Trust and are guaranteed by OPB (see Note 4(g)).

Note 5: Capital Assets

As at December 31, 2017 (in thousands of dollars)	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	$ 5,137	$ (4,661)	$ 476
Furniture and fixtures	1,993	(1,780)	213
Leasehold improvements	1,758	(1,336)	422
Total capital assets	$ 8,888	$ (7,777)	$ 1,111

As at December 31, 2016 (in thousands of dollars)	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	$ 4,866	$ (4,341)	$ 525
Furniture and fixtures	2,491	(2,032)	459
Leasehold improvements	1,732	(1,152)	580
Total capital assets	$ 9,089	$ (7,525)	$ 1,564

Note 6: Pension Obligations

An actuarial valuation prepared for funding purposes ("funding valuation") is used as the basis for funding, Plan design decisions and the periodic determination of the Plan's pension obligations. This funding valuation is based on methods required under the *PSPAct* and the *Pension Benefits Act* (Ontario) ("*PBA*"). The *PBA* and the *Income Tax Act* (Canada) require that a funding valuation of the PSPP be completed and filed with the regulatory authorities at least every three years.

The most recent regulatory filing of a funding valuation was as at an effective date of December 31, 2016, which disclosed a funding shortfall of $943 million on a going-concern basis. The funding valuation was prepared by Aon Hewitt. The next required funding valuation to be filed with the regulatory authorities will have an effective date no later than December 31, 2019.

For the purposes of these financial statements, Aon Hewitt used the funding valuation as at December 31, 2016 and rolled it forward in order to determine the Plan's pension obligations as at December 31, 2017. The pension obligations as at December 31, 2017 are $27.2 billion (2016 – $25.2 billion).

Actuarial Assumptions – The actuarial assumptions used in determining the value of the pension obligations reflect management's best estimate of future economic and non-economic events. The primary economic assumptions as at December 31 are:

	2017	2016
Investment return	**5.6%**	5.7%
Inflation	**2.0%**	2.0%
Real rate of return	**3.6%**	3.7%
Salary increases		
2017	**2.0% + promotional scale**	1.5% + promotional scale
2018	**2.0% + promotional scale**	2.0% + promotional scale
2019	**2.0% + promotional scale**	2.5% + promotional scale
2020	**2.25% + promotional scale**	3.0% + promotional scale
2021	**2.5% + promotional scale**	3.0% + promotional scale
2022 and thereafter	**2.75% + promotional scale**	3.0% + promotional scale

The non-economic assumptions include mortality, withdrawal and retirement rates. During 2017, changes in actuarial assumptions related to mortality, the real rate of return and total investment return resulted in an increase of $778 million (2016 – $517 million) in the Plan's pension obligations. The annual expected real rate of return has been lowered based on the long-term investment mix policy, and expected returns and volatility for each of the asset classes. Mortality tables have been updated to reflect improved longevity assumptions.

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Note 7: Deficit

In these financial statements, the amount by which net assets available for benefits is less than the pension obligations is represented by the deficit, which as at December 31, 2017 was $738 million (2016 – $796 million).

Note 8: Net Investment Income

For the year ended December 31

(in thousands of dollars)	**Investment Income[1]**	**Fair Value Changes**	**2017 Total**	Investment Income[1]	Fair Value Changes	2016 Total
Cash and short-term investments						
Canada	**$ 8,294**	**$ (184)**	**$ 8,110**	$ 10,681	$ 1,974	$ 12,655
Foreign[2]	**527**	**48,606**	**49,133**	452	241,044	241,496
	8,821	**48,422**	**57,243**	11,133	243,018	254,151
Bonds and private debt						
Canada	**213,610**	**6,990**	**220,600**	234,414	(12,349)	222,065
Foreign	**39,456**	**(21,640)**	**17,816**	40,739	(6,230)	34,509
	253,066	**(14,650)**	**238,416**	275,153	(18,579)	256,574
Equities						
Canada	**63,317**	**186,164**	**249,481**	54,370	480,344	534,714
Foreign	**179,815**	**1,658,018**	**1,837,833**	171,683	173,331	345,014
	243,132	**1,844,182**	**2,087,314**	226,053	653,675	879,728
Real estate	**237,718**	**(228,159)**	**9,559**	208,336	112,441	320,777
Infrastructure	**74,381**	**3,753**	**78,134**	50,308	(62,642)	(12,334)
Private equity	**144,288**	**7,527**	**151,815**	40,880	86,070	126,950
Total investment income	**$ 961,406**	**$1,661,075**	**$2,622,481**	$ 811,863	$1,013,983	$1,825,846
Investment management and related fees (Note 8(b))			**(91,880)**			(74,862)
Net investment income			**$2,530,601**			$1,750,984

1 Investment income includes interest on cash and short-term investments, fixed income and participating mortgages, dividend income on equities, and distributions from pooled funds and limited partnerships.

2 Fair value changes on cash and short-term investments include gains (losses) on foreign exchange contracts.

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a) Interest Income

For the year ended December 31 (in thousands of dollars)		2017		2016
Cash and short-term investments				
Canada				
Cash	$	1,303	$	7,201
Short-term notes and treasury funds		6,979		3,441
Term deposits		12		39
	$	8,294	$	10,681
Foreign				
Cash	$	413	$	429
Short-term notes and treasury funds		114		23
	$	527	$	452

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds.

b) Investment Management and Related Fees

For the year ended December 31 (in thousands of dollars)		2017		2016
Portfolio fund management fees	$	61,702	$	60,363
IMCO management fees		14,396		–
Transaction costs		8,594		8,303
Custodial fees		6,758		5,425
Private market expenses		430		771
	$	91,880	$	74,862

Transaction costs include commissions and fees on trades. IMCO management fees represent OPB’s share of the operating expenses incurred by IMCO which are charged back to its respective clients on a cost-recovery basis. Subsequent to IMCO becoming operational in 2017, the portfolio fund management fees, custodial fees, and private market expenses were paid by IMCO on behalf of OPB, and reimbursed by OPB.

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Note 9: Contributions

For the year ended December 31 (in thousands of dollars)	2017	2016
Members		
Current service required	$ 309,752	$ 301,627
Prior service	38,393	37,766
Total contributions from members	348,145	339,393
Employers		
Current service		
Regular contributions	309,598	301,833
PSSBA transfer	(12,863)	(14,634)
For members receiving Long Term Income Protection benefits	12,878	12,791
Prior service	4,098	4,636
	313,711	304,626
Sponsor payments		
Special payments	98,989	98,989
Additional current service	43,308	22,398
	142,297	121,387
Total contributions from employers and sponsor	456,008	426,013
Total contributions	$ 804,153	$ 765,406

The contribution requirements are set out in the *PSPAct* and summarized in Note 2(b).

Members who are receiving benefits on Long Term Income Protection have their contributions to the PSPP paid by their employers.

The Province, as sponsor of the Plan, contributed $99 million (2016 – $99 million) in Special Payments in 2017 towards the funding shortfall identified in the filed funding valuation as at December 31, 2016. In 2017, the Province made $43 million (2016 – $22 million) in additional employer current service contributions.

For 2017 and 2016, the contributions to the Plan were made in accordance with the funding requirements as specified by the most recently filed actuarial funding valuation.

There were no required contributions past due as at December 31, 2017 and 2016.

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Note 10: Operating Expenses

For the year ended December 31 (in thousands of dollars)		2017		2016
Staffing	$	25,370	$	29,383
IT and project management		7,786		8,792
Office premises and operations		5,709		5,992
IMCO set-up costs		5,048		2,362
Professional services		2,328		2,789
Depreciation		697		738
Staff development and support		545		337
Communications		436		440
Audit		352		364
Board remuneration		187		129
	$	48,458	$	51,326

IMCO Set-up Costs

On July 27, 2016, IMCO entered into a funding agreement with OPB and WSIB to provide funding for IMCO's initial set-up costs incurred from the date of the funding agreement to December 31, 2017. As at June 30, 2017, the entire outstanding loan receivable balance, including accrued interest, from IMCO was settled under this agreement (2016 – $0).

During 2017, IMCO charged $3 million (2016 – $1 million) to OPB, its portion of IMCO's initial set-up costs such as legal and other costs for entering into contracts with service providers. Other set-up costs related to IMCO of $2 million (2016 – $1 million), such as legal and consulting expenses, were also incurred by OPB during the year.

Included in the above operating expenses are:

External Audit Services

For the year ended December 31 (in thousands of dollars)		2017		2016
External audit and related services provided to Ontario Pension Board	$	240	$	205
External audit and related services provided to and recorded by subsidiary operations		299		272
Total fees	$	539	$	477

Actuarial Services

For the year ended December 31 (in thousands of dollars)		2017		2016
Actuarial services provided to Ontario Pension Board	$	564	$	457

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Note 11: Capital Management

The funding surpluses or deficits determined periodically through the funding valuations prepared by the independent actuary are defined as the Plan's capital. The actuary's funding valuation is used to measure the long-term health of the Plan. The last filed actuarial valuation report for funding purposes was prepared by Aon Hewitt as of December 31, 2016, which disclosed a funding shortfall of $943 million on a going-concern basis and a deficit of $3.7 billion on a solvency basis.

The objective of managing the Plan's capital is to ensure the Plan is funded to fully pay out the Plan's benefits. The funding valuation determines the annual minimum contribution levels to eliminate any shortfalls. The Plan's SIP&P also provides guidance with respect to the investment of the Plan's assets (see Note 4(a)) in order to assist with the management of any funding excesses or shortfalls. The Plan's rate of return expectation has been set in the SIP&P at a 3.70% real rate of return, net of fees.

Note 12: Comparative Financial Statements

Certain amounts in the comparative financial statements have been reclassified to conform to the presentation of the 2017 financial statements.

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Supplementary Information

Fixed Income Maturities

As at December 31 (in thousands of dollars)	2017 Fair Value	2017 Current Yield %	2016 Fair Value	2016 Current Yield %
Bonds				
Canada				
< 1 year	$ 86,726	1.33-9.30	$ 166,124	1.09-7.50
≥ 1-5 years	509,254	0.51-10.18	1,615,253	0.25-12.39
≥ 5-10 years	1,649,959	1.10-19.61	1,113,043	0.52-14.29
≥ 10 years	3,122,902	0.51-8.42	2,455,708	1.03-10.00
	5,368,841		5,350,128	
Foreign				
< 1 year	3,826	2.88-8.55	48,706	2.16-8.48
≥ 1-5 years	227,279	0.20-15.69	116,070	0.46-11.35
≥ 5-10 years	115,801	0.19-12.55	182,455	0.32-12.02
≥ 10 years	87,034	4.08-7.38	102,438	1.36-10.84
	433,940		449,669	
Fixed income funds (with no stated maturities)	475,434		454,739	
Total fixed income	$ 6,278,215		$ 6,254,536	

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Investments Over $200 Million

As at December 31, 2017 (in thousands of dollars)	Maturities	Coupon %		Fair Value[1]
Cash and short-term investments				
Government of Canada	–	–	$	433,681
Bonds				
Canada				
BlackRock Canada Universe Bond Index Class A Fund	–	–	$	208,607
Government of Canada	2019–2064	0.50–10.50		1,161,367
Province of Ontario	2019–2049	1.35–9.50		741,840
Province of Quebec	2019–2048	2.50–9.38		446,590
Canada Housing Trust No. 1	2019–2028	1.15–3.80		292,749
Real estate, net of financing				
Investment in real estate holdings, comprising OPB Realty Inc. (holding company, 100% owned), OPB (TDC) Inc. (holding company, 100% owned), OPB (Van Centre) Inc. (holding company, 100% owned), OPB Real Estate Investments 2 Limited (holding company, 100% owned), OPB (EMTC) Inc. (holding company, 100% owned), OPB (Southgate) Inc. (holding company, 100% owned), OPB Real Estate Investments (holding company, 100% owned), OPB (155 Wellington) Inc. (holding company, 100% owned), OPB (VanShore) Inc. (holding company, 100% owned), OPB (Centre 10) Inc. (holding company, 100% owned), OPB (885 WG) Inc. (holding company, 100% owned) and OPB Finance Trust (financing entity, 100% beneficial interest)	–	–	$	3,372,295

	Shares/Units		Fair Value[1]
Infrastructure			
OPB Infrastructure 2 Limited (holding company, 100% owned)	–	$	622,024
OPB Infrastructure 4 Limited (holding company, 100% owned)	–		222,427
OPB Infrastructure 3 Limited (holding company, 100% owned)	–		200,897
Equities			
Canada			
Toronto Dominion Bank	2,809	$	206,878
Private equities			
OPB Private Equity 5 Limited (holding company, 100% owned)	–	$	475,709
OPB Private Equity 3 Limited (holding company, 100% owned)	–		272,559

1 Includes guaranteed instruments issued by subsidiaries/agencies.

Real Estate Properties – Location and Gross Leasable Area

The following table provides gross leasable area of those real estate properties that are 100% directly owned and those owned through co-ownerships, all of which are held in single-purpose subsidiaries:

As at December 31, 2017 (in thousands of square feet)	Location	Gross Leasable Area[1]
Retail		
Pen Centre	St. Catharines	919
St. Vital Centre	Winnipeg	909
Southgate Centre	Edmonton	855
Erin Mills Town Centre	Mississauga	828
Erin Mills Town Plaza	Mississauga	122
Pickering Town Centre	Pickering	700
Woodgrove Centre	Nanaimo	748
CF Pacific Centre	Vancouver	674
Cornwall Centre	Regina	549
Halifax Shopping Centre	Halifax	523
Halifax Shopping Centre Annex	Halifax	420
Carlingwood Shopping Centre	Ottawa	520
Mumford Professional Centre	Halifax	187
		7,954
Office		
TD Centre	Toronto	4,487
Vancouver Office Portfolio	Vancouver	3,323
155 Wellington Street West	Toronto	1,211
Centre 10	Calgary	368
Pickering Office Tower/Durham College	Pickering	127
Halifax Office Complex	Halifax	49
		9,565
Residential		
Engelhart Apartments	Toronto	157
Total properties		17,676

1 Area shown above reflects 100% of each property's square footage. Southgate Centre and 155 Wellington Street West are 50% owned by Ontario Pension Board through its subsidiaries OPB (Southgate) Inc. and OPB (155 Wellington) Inc. Woodgrove Centre, Cornwall Centre and Engelhart Apartments are 50% owned by Ontario Pension Board through its subsidiary OPB Real Estate Investments 2 Limited. TD Centre is 30% owned by Ontario Pension Board through its subsidiary OPB (TDC) Inc. CF Pacific Centre and the Vancouver Office Portfolio are 25% owned by Ontario Pension Board through its subsidiaries OPB (Van Centre) Inc., OPB (VanShore) Inc. and OPB (885 WG) Inc.

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Ontario

July 5, 2018

Pension Benefits Guarantee Fund
Management's Responsibility for Financial Information

The CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* and specifically, subsection 82(2) of the *Pension Benefits Act,* is responsible for the administration of the Pension Benefits Guarantee Fund (PBGF).

Under the direction of the Superintendent, FSCO Management (Management) is responsible for the integrity and fair presentation of all information in the financial statements and notes. The financial statements have been prepared by Management in accordance with Canadian Public Sector Accounting Standards. The preparation of financial statements involves the use of Management's judgment and best estimates particularly when transactions affecting the current period cannot be determined with certainty until future periods.

In the administration of the PBGF, Management is dedicated to the highest standards of integrity in provision of its services and has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and safeguarding of its assets.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian Public Sector Accounting Standards for Government Not-For-Profit organizations. They have been approved by the Commission's Audit & Risk Committee. The Auditor's report follows.

Lester J. Wong
Deputy Superintendent, Pensions

Kwan Lee, MAcc, CPA, CA
Chief Accountant

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Financial Services Commission of Ontario

I have audited the accompanying financial statements of the Pension Benefits Guarantee Fund of the Financial Services Commission of Ontario, which comprise the statement of financial position as at March 31, 2018 and the statements of operations and fund surplus, cash flows and re-measurement gains and losses for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Commission's Pension Benefits Guarantee Fund as at March 31, 2018 and the results of its operations, its cash flows and its re-measurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
July 5, 2018

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

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FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Financial Position
As at March 31, 2018

	March 31, 2018 ($ '000)	March 31, 2017 ($ '000)
ASSETS		
Current		
Cash	6	-
Accounts receivable	194,055	308,385
Investments (Note 4)	773,695	567,896
	967,756	876,281
LIABILITIES AND FUND SURPLUS		
Current		
Accounts payable and accrued liabilities	7,407	6,539
Current portion of loan payable (Note 5)	11,000	11,000
Claims payable	15,945	4,670
	34,352	22,209
Claim payable - Long term	96,600	-
Loan payable - Long term (Note 5)	107,904	112,674
	238,856	134,883
Fund surplus from operation	736,570	743,150
Accumulated remeasurement gains (losses)	(7,670)	(1,752)
Fund surplus	728,900	741,398
	967,756	876,281

See accompanying notes to financial statements

Approved by:

Brian Mills
Chief Executive Officer
and Superintendent of Financial Services
Financial Services Commission of Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Operations and Fund Surplus
For the year ended March 31, 2018

	2018 ($ '000)	2017 ($ '000)
Revenue		
Premium revenue	89,011	70,510
Pension plan recoveries (Note 7)	8,125	245,311
Investment income (Note 4)	10,618	5,010
Pension consulting services recoveries (Note 9)	5,135	-
	112,889	320,831
Expenses		
Claims	108,999	10,717
Amortization of loan discount (Note 5)	6,229	6,458
Pension consulting services (Note 8)	3,266	2,416
Administration fee (Note 10)	758	577
Investment management fees (Note 10)	217	184
	119,469	20,352
Excess/(deficit) of revenue over expenses	(6,580)	300,479
Fund surplus, beginning of year	743,150	442,671
Fund surplus, end of year	736,570	743,150

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Cash Flows
For the year ended March 31, 2018

	March 31, 2018 ($ '000)	March 31, 2017 ($ '000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess/(deficit) of revenue over expenses	(6,580)	300,479
Items not affecting cash		
Amortization of loan discount (Note 5)	6,229	6,458
Losses on disposal of investments	642	989
	291	307,926
Changes in non cash working capital		
Accounts receivable	114,331	(236,142)
Claims payable	107,875	(19,806)
Accounts payable and accrued liabilities	868	599
	223,365	52,577
Cash flows from investing activities		
Purchases of investments	(2,781,807)	(2,603,550)
Proceeds from sale of investments	2,569,448	2,561,973
	(212,359)	(41,577)
Cash flows from financing activities		
Loan repayments	(11,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	6	-
Cash position, beginning of year	-	-
Cash position, end of year	6	-

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Re-measurement Gains and Losses
For the year ended March 31, 2018

	March 31, 2018 ($ '000)	March 31, 2017 ($ '000)
Accumulated re-measurement gains (losses), beginning of year	**(1,752)**	**(944)**
Unrealized losses attributed to portfolio investments	(6,560)	(1,797)
Realized losses reclassified to the statement of operations	642	989
Accumulated re-measurement gains (losses), end of year	**(7,670)**	**(1,752)**

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2018

1. STATUTORY AUTHORITY

The Pension Benefits Guarantee Fund (the "Fund" or "PBGF") is continued under the *Pension Benefits Act, R.S.O. 1990, c. P.8* (the "Act").

2. FUND OPERATIONS

The purpose of the Fund is to guarantee payment of pension benefits of certain defined benefit pension plans that are wound up under conditions specified in the Act and regulations thereto. The regulations also prescribe an assessment payable into the Fund by plan registrants.

The Act provides that if the assets of the Fund are insufficient to meet payments for claims, the Lieutenant Governor in Council may authorize the Minister of Finance of Ontario to make loans or grants on such terms and conditions as the Lieutenant Governor in Council directs. The total liability of the Fund to guarantee pension benefits is limited to the assets of the Fund including any loans or grants received from the Province.

The CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* and specifically, subsection 82(2) of the *Pension Benefits Act,* is responsible for the administration of the Fund, and the Fund reimburses FSCO for the costs of the services provided to the Fund. The investments of the Fund are managed by the Ontario Financing Authority, on a fee-for-service basis which is paid by the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared by the management of FSCO in accordance with Public Sector Accounting Standards for Government Not-For-Profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB). Accordingly, management has used the following significant accounting policies in their preparation.

(a) Financial Instruments

The Fund follows PSA-GNFPO accounting standards relating to financial instruments. Under these standards, all financial instruments are included on the balance sheet and are measured either at fair value or at cost or amortized cost as follows:

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2018

- Cash and investments are recorded at fair value, with changes in fair value during the period recognized in the statement of re-measurement gains and losses until realized. Fair value is determined from quoted prices for similar investments.

- Accounts receivable, account payable and accrued liabilities are valued at cost which approximate fair value given their short term maturities.

- The non-interest bearing loan payable is reflected at amortized cost using the effective interest rate method due to the concessionary nature of the loan. The initial valuation was determined by discounting future cash flows using the provincial cost of borrowing. The resulting benefit (the difference between the face value of the loan and the net present value) was accounted for as a grant in the year received and is amortized to loan discount expense over the term of the loan.

(b) Claims Payable

Claims payable are estimates of the liabilities in respect of those defined benefit pension plans prescribed by the Act that are wound up or in the process of being ordered wound up under conditions specified in the Act, and the claim amounts can be reasonably estimated. Liabilities are also recognized when there is a high probability that a company will not emerge from creditor protection and the pension plan will be wound up on a specified date and the claim can be reasonably estimated. Claims payable are based on information provided by appointed pension plan administrators from estimates provided by actuarial consultants. These estimates represent the present value of future payments to settle claims for benefits and expenses by pension plans.

Differences in the liabilities, if any, between the amounts recognized based on estimates and the actual claims made, will be charged or credited to claims expense in the year when the actual amounts are determined.

(c) Premium Revenue

An estimate of the premium revenue due from defined benefit pension plans at rates prescribed by the Act is recorded until receipt of the annual assessment certificate nine months after the plan's fiscal year end.

Differences in premium revenue, if any, between the estimated amounts recognized and the actual revenues due are charged or credited to premium revenue in the year.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2018

	2018 ($'000)	2017 ($'000)
Estimated revenue	69,300	64,000
Actual revenue related to current and prior years received in current year	83,711	67,810
Less: prior year's estimated revenue	(64,000)	(61,300)
	89,011	**70,510**

(d) Use of Estimates

The preparation of financial statements in accordance with PSA-GNFPO accounting standards requires that FSCO's management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses for the period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates and the differences could be material. Areas where significant estimates must be made include premium revenue, claims payable and pension plan recoveries receivable.

4. INVESTMENTS

As the administrator, investing the assets of the Fund, FSCO has established a Pension Benefits Guarantee Fund Management Committee. The Committee has developed a Statement of Investment Policies and Guidelines which is reviewed regularly and provides operational objectives, investment principles, policies and guidelines for the management of the investments.

Investments consist of:

	2018 ($'000)		2017 ($'000)	
	Fair Value	Cost	Fair Value	Cost
Discounted notes	360,207	360,207	338,945	338,945
Government bonds	413,488	421,160	228,951	230,703
	773,695	781,367	567,896	569,648

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2018

Investment income includes interest earned from interest bearing securities and realized gains and losses from the sale of securities.

The Fund's investment portfolio is exposed to various risks, which are mitigated by the type of investment and therefore risk is low.

The market value sensitivity of the Money Market Portfolio at the end of the last quarter was $0.80M for a 1.00% change in rates. The market value sensitivity of the Government Bond Laddered Portfolio at the end of the last quarter was $6.15M for a 1.00% change in rates.

Discounted notes with maturities between April 2018 and September 2018 have yields in the range of 0.770% to 1.670% (2017 – maturities between April 2017 and June 2017 had yields in the range of 0.513% to 0.900%).

The government bonds maturing between June 2018 and June 2021 have yields in the range of 0.938% to 2.254% (2017 – maturing between June 2017 and December 2019 have yields in the range of 1.009 to 1.433%).

5. LOAN PAYABLE TO THE PROVINCE

Non-interest Bearing Loan

On March 31, 2004, the Fund obtained a $330M loan from the Province, a related party. The loan is non-interest bearing and repayable to the Province in thirty equal annual installments of $11M. The loan agreement provides for the Minister of Finance to advance any installment payment date depending on the cash position of the Fund. Repayments over the next five years total $55M.

The face value of this non-interest bearing loan has been discounted at an effective interest rate of 5.0368% to reflect its amortized cost outstanding as of March 31, 2018 as follows:

	2018 ($'000)	2017 ($'000)
Face Value	176,000	187,000
Less: Discount	(57,096)	(63,326)
Amortized Cost	118,904	123,674
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	107,904	112,674
Balance	118,904	123,674

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2018

The discount of $57.1M is amortized to loan discount expense over the remaining term of the loan, based on the effective interest rate method. The amortization schedule for the subsequent five fiscal years is as follows:

Fiscal Year	($'000)
2019	5,989
2020	5,737
2021	5,471
2022	5,193
2023	4,901

6. FINANCIAL INSTRUMENTS

The main risks that the Fund's financial instruments are exposed to are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Fund is exposed to credit risk relating to the collection of receivables. The Fund considers this risk to be low.

The Fund's accounts receivable consists of premium revenue receivable of $82.1M, RST receivable of $6.6M, investment income receivable of $4.1M, the HST receivable of $0.2M and pension plan recoveries receivable of $101M.

The premium revenue receivable recorded is based on an assessment formula set out in section 37 of Regulation 909 of the Act and is calculated as follows:

- Base assessment of $5 per Ontario plan beneficiary plus specified percentages of the plans PBGF assessment base;
- Maximum assessment of $300 per Ontario plan beneficiary; and
- Minimum assessment of $250 for each plan.

The probability for a pension plan to become insolvent and not pay the premium within a year is very low. In addition, in the event that a pension plan would become insolvent within a year, there are legal options for the Fund that can be exercised to collect the premiums. Historically, the Fund has been able to collect the amounts estimated as premium receivable.

The risk of not collecting the investment income and the HST receivable is considered to be minimal.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2018

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its cash flow obligations as they fall due. The Fund's exposure to liquidity risk is minimal as the Fund has sufficient funds in its investment portfolio to settle all current liabilities and the Fund's exposure is limited to the assets of the Fund including any loans or grants received from the Province. As at March 31, 2018, the Fund has an investment balance of $774M (2017 - $568M) to settle current liabilities of $34M (2017 - $22M). In addition, the Fund has the ability to meet sudden and unexpected claims by converting the investment holdings to cash without delay or significant transaction costs.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Fund. Short-term financial instruments (receivables, accounts payable) are not subject to significant market risk. The Fund manages its market risk by investing assets in low-risk and liquid securities. The Fund's market risk is considered to be low.

7. PENSION PLAN RECOVERIES

Following the settlement of all benefits, payment of expenses and the submission of the final wind up report, any remaining funds are recovered by the Fund. During fiscal 2018, the Fund had $8.1M (2017 – $245.3M) in recoveries.

8. PENSION CONSULTING SERVICES

The Fund periodically engages the services of external experts to represent the Fund's interests in insolvency proceedings respecting employers who are unable to meet their funding obligations under the *Pension Benefits Act*. For fiscal 2018, $3.3M was paid to such external experts (2017 - $2.4M paid).

9. PENSION CONSULTING SERVICES RECOVERIES

The PBGF was reimbursed for certain legal and consulting costs, which it incurred in respect of the Stelco restructuring, by the Ministry of the Environment and Climate Change which also participated in the restructuring. The costs reimbursed totalled $5.1 million.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2018

10. RELATED PARTY TRANSACTIONS

For fiscal 2018, an administration fee of $0.8M (2017 - $0.6M) was incurred and has been paid to FSCO for management salaries and benefits, accounting, information technology, legal, pension and other services. The Fund and FSCO are related parties.

Investment Management fees consist mainly of fees paid to the Ontario Financing Authority, a related party.

The costs of processing premium revenue transactions are absorbed by FSCO without charge to the Fund.

Other related party transactions during the year have been disclosed in note 5 and 9.

11. SUBSEQUENT EVENT

The Province's spring budget Bill 31 received Royal Assent on May 8, 2018, resulting in a change to the Pension Benefit Act. The maximum pension benefits to be paid increased from $1000 to $1500 per month in relation to any pension plan wind ups with a wind up date of May 19, 2017 or later.

Provincial Judges Pension Fund

Management Responsibility for Financial Reporting

The financial statement has been prepared in accordance with the financial reporting provisions prescribed by the Memorandum of Agreement between the Ontario Conference of Judges and the Lieutenant Governor in Council, the then Minister of Government Services and the Provincial Judges Pension Board (the Standstill Agreement) dated December 20, 2013 and of necessity include some amounts that are based on estimates and judgments. The financial statement has been properly prepared within reasonable limits of materiality and in light of information available up to June 7, 2018.

Management is responsible for the integrity of the financial statement and maintains a system of internal control designed to provide reasonable assurance that the financial information is accurate and reliable and the Fund's deposits and payments are adequately accounted for. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The financial statement has been audited by the Office of the Auditor General of Ontario, whose responsibility it is to express an opinion on whether it has been prepared in accordance with the financial reporting provisions prescribed by the Standstill Agreement. The Independent Auditor's Report that appears as part of the financial statement outlines the scope of the Auditors examination and opinion.

On behalf of management

Mark A. Henry
Director, Managed Plans
Ontario Pension Board

Marc Rondeau
Assistant Deputy Minister
Centre for Public Sector Labour
Relations and Compensation
Treasury Board Secretariat

Stefanie Ellul
Director, Pay & Benefits Support Branch
Pay and Benefits Services Division
Ontario Shared Services
Ministry of Government and Consumer
Services

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Provincial Judges Pension Board and to the Minister of Finance

I have audited the accompanying Statement of Changes in Fund Balance of the Provincial Judges Pension Fund as at March 31, 2018, and a summary of significant accounting policies and other explanatory information (together the "financial statement"). The financial statement has been prepared by management in accordance with the financial reporting provisions prescribed by the Memorandum of Agreement between the Ontario Conference of Judges and the Lieutenant Governor in Council, the then Minister of Government Services and the Provincial Judges Pension Board (the Standstill Agreement) dated December 20, 2013.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation of this financial statement in accordance with the financial reporting provisions prescribed by the Standstill Agreement, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on this financial statement based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statement of the Provincial Judges Pension Fund as at March 31, 2018 is prepared in accordance with the financial reporting provisions of the Standstill Agreement.

Emphasis of Matters

Without modifying my opinion, I draw attention to Note 2 and Note 4 to the financial statement.

Note 2 describes the basis of accounting. The financial statement is prepared to assist the Provincial Judges Pension Fund to meet the reporting requirements of the Standstill Agreement, and as a result the financial statement may not be suitable for another purpose.

Note 4 to the financial statement indicates that the Province is responsible for the unfunded liability of the Fund.

Toronto, Ontario
June 7, 2018

Susan Klein, CPA, CA, LPA
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Provincial Judges Pension Fund

Statement of Changes in Fund Balance

For the Year Ended March 31, 2018

	2018 ($ 000)	2017 ($ 000)
Deposits		
Contributions		
Participants	4,870	4,452
Province of Ontario (Note 4)	34,512	34,512
Interest earned (note 1 (l))	48,144	47,798
	87,526	86,762
Payments		
Pension payments and survivor allowances	44,341	40,795
Refund of contributions	765	92
	45,106	40,887
Net increase in the Fund	42,420	45,875
Fund Balance with the Minister of Finance		
Beginning of year	942,647	896,772
End of year	985,067	942,647

See accompanying notes to the financial statement.

Approved on behalf of the Board:

Chair

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2018

1. Description and Administration of the Fund

The Treasury Board Secretariat is responsible for overall oversight of the Provincial Judges Pension Fund [Fund] including administration of all contributions to the funds and interest earned. The Provincial Judges Pension Board [Board], as originally designated by Ontario Regulation 67/92 of the Courts of Justice Act, is responsible for the administration of pension payments and survivor allowances.

On Oct 31, 2013, Ontario Regulation 67/92 was repealed and was replaced by Ontario Regulation 290/13 under the same legislation. The new Regulation splits the Provincial Judges Pension Fund into two plans, the Provincial Judges Pension Fund and the Provincial Judges Supplementary Pension Account.

The Fund is registered for income tax purposes and provides for pension benefits up to the limit permitted under the Income Tax Act. The Provincial Judges Supplementary Pension Account provides for pension benefits above the limit prescribed by the Income Tax Act for post-1991 service.

On December 20, 2013, a Court Order was issued, based on an agreement among parties to the litigation challenging the constitutionality of the Provincial Judges Supplementary Pension Account, that effectively ordered management to administer the Fund as one plan with the same administrative practices as were in place under Ontario Regulation 67/92, until the litigation is resolved (Memorandum of Agreement called the "Standstill Agreement"). Pursuant to the direction of the Canada Revenue Agency, the administrative practices for the Provincial Judges Pension Plan were and continue to be to administer the Plan in a manner consistent with the requirements of the Federal Income Tax Act and related Income Tax Act Regulations.

As a result, this financial statement continues to be presented as one Fund.

The Fund is held within the Consolidated Revenue Fund of the Province of Ontario and is included as an employee future benefit liability within the consolidated financial statements of the Province.

The Fund is not subject to the reporting requirements under the Pension Benefits Act and Regulations.

The following brief description of the Fund is provided for general purposes only. For more complete information, reference should be made to the Regulations.

(A) GENERAL

The purpose of the Fund is to provide pension payments to retired Provincial Judges who are members of the Plan or survivor allowances to the eligible dependents of these Judges.

(B) FUNDING POLICY

Participants are required to contribute 7% of their salary up to the earlier occurrence of either meeting their basic service requirement or attaining age 70 years.

The contribution required from the Province is determined by an actuarial valuation as described in note 4.

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2018

1. Description and Administration of the Fund (Continued)

(C) PENSION PAYMENTS

A pension payment is available based on the age and the number of years of full-time service for which the participant has credit upon ceasing to hold office and is based on the salary of a full-time judge of the highest judicial rank held by the participant while in office. The participant is entitled to these payments during his/her lifetime.

(D) DISABILITY PENSION PAYMENTS

A full pension is available at age 65 for participants with a minimum of five years of full-time service who are unable to serve in office due to injury or chronic illness.

(E) SURVIVOR ALLOWANCES

A survivor allowance equal to 60% of the qualifying judge's pension payment is paid to the spouse during the spouse's lifetime or to children who meet the age, custody, education or disability criteria defined by Regulation.

(F) DEATH REFUNDS

A death refund can be payable to the personal representative of a participant where there is no further entitlement to a survivor allowance. The amount of the refund is equal to the participant's contributions in the Fund plus interest, less entitlements already paid out.

(G) WITHDRAWAL REFUNDS

Upon ceasing to hold office for a reason other than death, participants not eligible to receive pension payments are entitled to receive a refund of their contributions to the Fund plus interest.

(H) ANNUAL INFLATIONARY ESCALATION OF ENTITLEMENTS

- Judges Retired Before June 1, 2007:

  The annual inflationary increase for judges who retired before June 1, 2007 is based on changes in the Average Weekly Earnings published by Statistics Canada and subject to a maximum of 7% in any one year, and is effective on April 1 in every year. In addition, the pensions are adjusted based on the salary increases of sitting judges as recommended by the Provincial Judges Remuneration Commission.

- Judges Retired On Or After June 1, 2007:

  The annual inflationary increase for judges who retired on or after June 1, 2007 and elected to be paid under the plan provisions effective on that date is based on changes in the Consumer Price Index, and is effective on January 1 in every year.

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2018

1. Description and Administration of the Fund (Continued)

(I) INTEREST REVENUE

Interest is credited to the account for the Fund, held in the Consolidated Revenue Fund of the Province of Ontario, at the average of the monthly Ontario Borrowing Rates for a 25-year maturity as follows:

- on the net monthly increases to the account accumulating during the fiscal year at the interest rate for the fiscal year; and
- on the net increases to the account for each of the preceding 25 years at the interest rates applicable to those years, providing the funds remain on deposit with the Consolidated Revenue Fund.

2. Significant Accounting Policy – Basis of Accounting

The financial statement is prepared by management in accordance with the Memorandum of Agreement between the Ontario Conference of Judges and the Lieutenant Governor in Council, the then-Minister of Government Services and the Provincial Judges Pension Board (the Standstill Agreement). The basis of accounting prescribed by the Standstill Agreement is consistent with both the repealed Regulation 67/92 and the current Regulation 290/13 under the Courts of Justice Act and consists of contributions and money paid, transferred or credited to the Fund, less money paid out, except for the fact no Supplementary Pension Account was established.

The Standstill Agreement requires that the Provincial Judges Pension Plan be administered and solely funded through the Provincial Judges Pension Fund as it was on October 30, 2013, notwithstanding that Regulation 290/13 requires that the Provincial Judges Pension Plan be funded through the Provincial Judges Pension Fund and a separate Provincial Judges Supplemental Pension Account.

3. Administrative Expenses

Administrative expenses are paid by the Province of Ontario and are not reflected in this financial statement.

4. Liability for Future Benefits

The Provincial Judges Remuneration Commission (Commission) was established under the *Courts of Justice Act* to conduct an independent review of the salary, pension and benefits for all provincial judges. The Commission's salary and non-pension benefits recommendations are binding; recommendations on pension benefits are non-binding. The most recent report of the Commission was the Ninth and Tenth Provincial Judges Remuneration Commission released on April 18, 2018, covering the periods of April 1, 2014 to March 31, 2018 and April 1, 2018 to March 31, 2022 respectively. For the period of April 1, 2014 to March 31, 2018, the report did not recommend any salary increases in addition to the annual inflationary increases already received. The report recommendations for the period April 1, 2018 to March 31, 2022 are included in note 5.

The Province is responsible for the unfunded liability of the Provincial Judges Pension Fund and funds this liability in amounts recommended by periodic actuarial valuations of the Plan. The Provincially determined contribution for fiscal 2018 was $34,512,000, which maintained contributions consistent with recommendations in the March 31, 2011 actuarial

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2018

funding valuation, as a current actuarial valuation had yet to be performed. Any required adjustments to contributions, as a result of performing a current actuarial valuation when the litigation is resolved, will be accounted for in the period the valuation is performed. Management has estimated that the amount of additional government contributions is approximately $29 million as at March 31, 2017. Estimates as at March 31, 2018 are not available due to the ongoing litigation.

Significant assumptions in the March 31, 2011 actuarial funding valuation, the most recent valuation conducted, are as follows:

Assumption	**March 2011 Valuation**
Expected Return on Plan Assets	4.60%
Discount Rate on Future Cash Inflows	4.60%
Salary Rate Increases	4.00%
Age of Retirement	graduated scale from age 60 to 75
Method of Valuation	Aggregate Cost Method

5. Subsequent Events

(A) The Ninth and Tenth Provincial Judges Remuneration Commission

The Ninth and Tenth Provincial Judges Remuneration Commission recommended that judicial salaries be fixed at 95.27% of federal judicial salaries, to be phased in over the four year period from April 1, 2018 to March 31, 2022.

In addition to the salary recommendations, the report recommended a new pension plan design consisting of a fully funded registered pension plan, a partially funded (3 – 5 years' worth of benefits) retirement compensation arrangement, and a supplemental plan funded through a special purpose account in the Consolidated Revenue Fund. While the plan design is different, the report did not recommend any changes to the benefits accruals or other pension benefits provided by the pension plan. Commission recommendations on pensions are not binding on the Province of Ontario but the Province of Ontario has agreed to make the necessary plan changes.

As a result of these changes, the Standstill Agreement has been extended to May 1, 2019 to permit time to implement the new design.

The Public Guardian and Trustee
For the Province of Ontario

Management's Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented with the financial statements. The financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS), and, where appropriate, include amounts based on management's best estimates and judgments.

Management is also responsible for developing and maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and that the Public Guardian and Trustee for the Province of Ontario adheres to legislation and regulatory requirements. These systems include the communication of policies and the Public Guardian and Trustee for the Province of Ontario's code of ethics and business conduct throughout the organization. Management continually monitors the systems of internal controls for compliance.

The financial statements have been examined by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards (IFRS). The Auditor's Report outlines the scope of the auditor's examination and opinion.

Kenneth R. Goodman
Public Guardian and Trustee

Carolyn Sitler, CPA, CMA
Chief Financial Officer

June 26, 2018

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Public Guardian and Trustee for the Province of Ontario
and to the Attorney General

I have audited the accompanying financial statements of The Public Guardian and Trustee for the Province of Ontario, which comprise the statement of financial position as at March 31, 2018, and the statements of income and comprehensive income, statement of changes in net assets attributable to beneficiaries of estates and trusts administered, statement of changes in equity of the administration fund and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of The Public Guardian and Trustee for the Province of Ontario As at March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Toronto, Ontario
June 26, 2018

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Assistant Auditor General

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The Public Guardian and Trustee for the Province of Ontario

Statement of Financial Position

As at March 31, 2018

in thousands of dollars	Note		2018		2017
Estates and Trusts					
Assets					
Cash and cash equivalents	4.1	**$**	**84,663**	$	88,823
Accounts receivable	6		**4,188**		5,163
Investments at fair value through profit or loss:					
Bonds and other debt securities - client owned	4.1		**61,468**		58,865
Diversified fund	4.2		**93,494**		90,970
Canadian income and dividend fund	4.3		**99,091**		98,000
Equity securities - client owned	4.4		**58,341**		42,152
Held to maturity investments:					
Fixed income funds	4.5		**1,370,240**		1,273,686
Real estate			**111,699**		101,804
Other assets	7		**15,981**		14,219
Total assets			**1,899,165**		1,773,682
Liabilities					
Accounts payable and accrued liabilities	8		**74,415**		60,457
Net assets attributable to beneficiaries of Estates and Trusts			**1,824,750**		1,713,225
Total liabilities and net assets attributable to beneficiaries of Estates and Trusts		**$**	**1,899,165**	$	1,773,682
Administration Fund					
Assets					
Cash and cash equivalents		**$**	**719**	$	243
Accounts receivable	6		**2,761**		2,787
Investments at fair value through profit or loss:					
Diversified fund	4.2		**87,685**		82,933
Canadian income and dividend fund	4.3		**26,109**		25,786
Held to maturity investments:					
Fixed income funds	4.5		**9,904**		5,159
Total assets			**127,178**		116,908
Liabilities					
Accounts payable and accrued liabilities	8		**4,827**		4,597
Total liabilities			**4,827**		4,597
Equity					
Funds and reserves			**17,500**		17,500
Unappropriated fund			**104,851**		94,811
Total equity			**122,351**		112,311
Total liabilities and equity		**$**	**127,178**	$	116,908

On behalf of The Public Guardian and Trustee for the Province of Ontario

Kenneth R Goodman — Public Guardian and Trustee

Carolyn Sitler — Chief Financial Officer

The Public Guardian and Trustee for the Province of Ontario

Statement of income and comprehensive income - Estates and Trusts

For the period ended March 31, 2018

in thousands of dollars	Note	2018	2017
Estates and Trusts			
Income			
Pensions		**$ 101,304**	$ 96,210
Social benefits		**104,496**	99,350
Other income		**38,980**	35,347
		244,780	230,907
Expenses			
Accommodation		**130,067**	126,989
Allowances		**44,333**	42,809
Fees charged by the Public Guardian and Trustee	9	**30,992**	29,459
Living expenses		**10,622**	11,389
Taxes		**12,961**	10,643
Real estate		**9,051**	9,367
Other expenses		**6,514**	6,666
Medical expenses		**6,663**	6,674
Funeral expenses		**5,956**	5,920
Utilities		**5,188**	5,125
Insurance		**1,358**	2,680
Total expenses		**263,705**	257,721
Net investment income			
Interest income from fixed income funds		**24,134**	23,536
Other interest and dividend income	10	**9,186**	8,291
Net realized gain on sale of investments	11.1	**5,422**	4,885
Net realized and unrealized foreign exchange gain		**(928)**	428
Net change in unrealized gain/(loss) on investments at fair value through profit or loss	11.2	**6,128**	17,633
		43,942	54,773
Total income and comprehensive income for the year		**$ 25,017**	$ 27,959

The Public Guardian and Trustee for the Province of Ontario

Statement of income and comprehensive income - Administration Fund

For the period ended March 31, 2018

in thousands of dollars	Note	2018	2017
Administration Fund			
Revenue			
Fees charged on estates and trusts	9	**$ 30,992**	$ 29,459
Grants received from the Ministry of the Attorney General	15	**18,480**	18,348
		49,472	47,807
Expenses			
Salaries, wages and benefits	13	**36,145**	35,318
General administration	14	**3,277**	3,262
Fees incurred		**2,087**	1,910
Transportation and communication expenses		**924**	958
Supplies and equipment expenses		**226**	411
Claims		**351**	323
		43,010	42,182
Net investment income			
Other interest and dividend income	10	**3,281**	2,876
Interest income/(expense) from fixed income funds		**1,103**	(358)
Net realized and unrealized foreign exchange gain		**163**	392
Net realized gain on sale of investments	11.1	**4,480**	2,909
Net change in unrealized (loss)/gain on investments at fair value through profit or loss	11.2	**(2,849)**	6,260
		6,178	12,079
Investment expenses	12	**2,600**	2,396
Net investment income/(loss)		**3,578**	9,683
Total income and comprehensive income for the year		**$ 10,040**	$ 15,308

The Public Guardian and Trustee for the Province of Ontario

Statement of changes in net assets attributable to beneficiaries of Estates and Trusts Administered

(in thousands of dollars)

	Client Trusts	Minors	Litigants	Deceased Estates	Cemetery Trusts	Forfeited Corporate Assets	Corporate Trusts	Land Titles	Total
Balance at March 31, 2016	$ 664,074	399,366	308,609	157,287	25,462	26,536	544	757	$ 1,582,635
Total income/(loss) and comprehensive income/(loss) for the year	7,846	18,988	4,303	(3,320)	728	(612)	4	22	27,959
Other changes in net assets attributable to beneficiaries:									
Contributions during the year	201,040	62,475	151,380	54,668	877	4,910	203	3,000	478,553
Distributions during the year	(160,789)	(71,381)	(100,559)	(36,889)	(242)	(161)	-	(232)	(370,253)
Funds escheated to the Crown (note 16)	-	-	-	(249)	-	(5,420)	-	-	(5,669)
Total increase/(decrease) in net assets attributable to beneficiaries	48,097	10,082	55,124	14,210	1,363	(1,283)	207	2,790	130,590
Balance at March 31, 2017	$ 712,171	409,448	363,733	171,497	26,825	25,253	751	3,547	$ 1,713,225
Total income/(loss) and comprehensive income/(loss) for the year	**17,819**	**8,565**	**4,306**	**(5,366)**	**28**	**(438)**	**30**	**73**	**25,017**
Other changes in net assets attributable to beneficiaries:									
Contributions during the year	**196,258**	**73,835**	**169,522**	**87,600**	**1,193**	**34**	**-**	**100**	**528,542**
Distributions during the year	**(168,800)**	**(65,471)**	**(144,390)**	**(61,769)**	**(200)**	**(638)**	**-**	**(116)**	**(441,384)**
Funds escheated to the Crown (note 16)	**-**	**-**	**-**	**(517)**	**-**	**(133)**	**-**	**-**	**(650)**
Total increase/(decrease) in net assets attributable to beneficiaries	**45,277**	**16,929**	**29,438**	**19,948**	**1,021**	**(1,175)**	**30**	**57**	**111,525**
Balance at March 31, 2018	**$ 757,448**	**426,377**	**393,171**	**191,445**	**27,846**	**24,078**	**781**	**3,604**	**$ 1,824,750**

The Public Guardian and Trustee for the Province of Ontario

Statement of changes in equity of the Administration Fund

(in thousands of dollars)

	Assurance Fund	Litigation Reserve Fund	Reserve for Doubtful Accounts	Capacity Assessment Fund	Total Funds and Reserves	Unappropriated Fund	Total
Balance at March 31, 2016	$ 14,300	3,000	100	100	17,500	79,503	$ 97,003
Total income for the year	-	-	-	-	-	15,308	15,308
Transfers to/(from) reserves							
Transfers made during the year	275	63	-	(15)	323	(323)	-
Reserves released during the year	(275)	(63)	-	15	(323)	323	-
Total increase in equity	-	-	-	-	-	15,308	15,308
Balance at March 31, 2017	$ 14,300	3,000	100	100	17,500	94,811	$ 112,311
Total income for the year	**-**	**-**	**-**	**-**	**-**	**10,040**	**10,040**
Transfers to/(from) reserves							
Transfers made during the year	**199**	**137**	**-**	**16**	**352**	**(352)**	**-**
Reserves released during the year	**(199)**	**(137)**	**-**	**(16)**	**(352)**	**352**	**-**
Total increase in equity	**-**	**-**	**-**	**-**	**-**	**10,040**	**10,040**
Balance at March 31, 2018	**$ 14,300**	**3,000**	**100**	**100**	**17,500**	**104,851**	**$ 122,351**

The Public Guardian and Trustee for the Province of Ontario

Statement of Cash flows

For the period ended March 31 *in thousands of dollars*	Estates and Trusts 2018	Estates and Trusts 2017	Administration Fund 2018	Administration Fund 2017
Cash flows from operating activities				
Income and comprehensive income	**$ 25,017**	$ 27,959	**$ 10,040**	$ 15,308
Adjustments for:				
Net unrealized (gain)/loss on investments and foreign currency at fair value	**(4,267)**	(17,544)	**2,685**	(6,652)
Changes in working capital items				
Accounts receivable	**975**	(714)	**26**	(762)
Accounts payable and accrued liabilities	**13,958**	10,760	**230**	33
Net cash from operating activities	**35,683**	20,461	**12,981**	7,927
Cash flows from investing activities				
Acquisition of investments	**(1,803,202)**	(1,277,024)	**(12,505)**	(7,990)
Proceeds from sale of investments	**1,729,370**	1,214,157	-	-
Proceeds from sale of real estate	**40,298**	31,654	-	-
Net (increase)/decrease in other assets	**(1,762)**	632	-	-
Net cash from investing activities	**(35,296)**	(30,581)	**(12,505)**	(7,990)
Cash flows from financing activities				
Client Capital Contributions	**414,013**	374,413	**-**	-
Client Capital Distributions	**(417,910)**	(341,562)	**-**	-
Client Capital Net Other	**(650)**	(5,669)	**-**	-
Net cash from financing activities	**(4,547)**	27,182	**-**	-
Increase (decrease) in cash and cash equivalents	**(4,160)**	17,062	**476**	(63)
Cash and cash equivalent, beginning of the year	**88,823**	71,761	**243**	306
Cash and cash equivalent, end of the year	**$ 84,663**	$ 88,823	**$ 719**	$ 243

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements
March 31, 2018 and March 31, 2017

1. Reporting entity

The Office of the Public Guardian and Trustee for the Province of Ontario, Canada ("The Public Guardian and Trustee" or "OPGT") is part of the Province of Ontario's Ministry of the Attorney General. The Public Guardian and Trustee is appointed under *The Public Guardian and Trustee Act* and performs duties under a number of statutes with the following main responsibilities:

- The guardianship of property of incapable adults;
- The administration of estates of persons who have died in Ontario intestate and without next-of-kin;
- The gathering of assets reverting to the Crown under the Escheats Act;
- The management of funds, mortgages and securities paid into or lodged with the Accountant of the Superior Court of Justice on behalf of minors and litigants; and
- A general supervisory role over charitable property.

The Public Guardian and Trustee has perpetual succession and an official seal and may sue and be sued in his or her corporate name. The Office of The Public Guardian and Trustee has close to 400 staff located in six regional offices throughout the Province of Ontario with the main office located in Toronto at 595 Bay Street, Suite 800, Toronto, ON, M5G 2M6.

These financial statements comprise the following:

a) Estates and Trusts: This represents accounts administered by the Public Guardian and Trustee acting as guardian or trustee under the *Substitute Decisions Act*, the *Public Guardian and Trustee Act*, the *Crown Administration of Estates Act*, the *Estates Act* and various other statutes;

b) Administration Fund: This represents the operating account of The Public Guardian and Trustee. The Administration Fund is used to accumulate fees charged to each estate and trust for services as prescribed by the Fee Schedule created pursuant to *The Public Guardian and Trustee Act*. Operating grants are received as required from the Ministry of the Attorney General to fund the operations of OPGT.

Cash balances in the Administration Fund which are not required for operating purposes are invested along with the cash funds of Estates and Trusts. The Administration Fund receives the net interest income of these investment activities, after interest is distributed on the funds of Estates and Trusts in accordance with the interest rates prescribed by *The Public Guardian and Trustee Act.*

The Public Guardian and Trustee in its capacity as Accountant of the Superior Court of Justice also acts as custodian of miscellaneous securities and documents having a face value of $1,090,310 (March 31, 2017: $3,489,925) and mortgages as required. These amounts are not reflected in the financial statements as The Public Guardian and Trustee does not act as trustee of these funds but simply as custodian of the instruments on behalf of the client. The Public Guardian and Trustee as custodian also holds letters of credit, lien bonds, guardianship bonds and performance guarantee bonds for litigants.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These financial statements were authorized for issue by the Public Guardian and Trustee on June 26, 2018.

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

2. Basis of preparation (continued)

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for the investments at fair value through profit or loss in the statement of financial position which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency for both Estates and Trusts and the Administration Fund. Except as otherwise indicated, all financial information presented in Canadian dollars has been rounded to the nearest dollar.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year, as well as critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in notes 3(c), 3(d) and note 5.

3. Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated into Canadian Dollars using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted to Canadian Dollars at the exchange rate at the reporting period end date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in Canadian Dollars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the reporting period end date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Canadian Dollars at the exchange rate on the reporting period end date. Foreign currency differences arising on translation are recognized in profit or loss on a net basis.

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

3. Significant accounting policies (continued)

(b) Net investment income/(loss)

Net investment income/(loss) comprises interest income on funds invested, dividend income, gains on the disposal of investment securities, changes in the value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets. Income and expenses are presented on a net basis only when permitted under IFRS, for example, gains and losses from financial instruments at fair value through profit or loss.

(i) Interest income and expense

Interest income and expense is recognized on an accrual basis in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the carrying amount of the financial instrument. When calculating the effective interest rate, estimates are made of future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

(ii) Dividend income

Dividend income is recognized in profit or loss on the date that the right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(iii) Net gain/(loss) on investments at fair value through profit or loss

Net gain/(loss) on investments at fair value through profit or loss includes realized and unrealized fair value changes, but excludes interest and dividend income. The net realized gain/(loss) on investments at fair value through profit or loss is calculated using the average cost method.

(c) Financial assets and liabilities

(i) Financial assets

Financial assets in OPGT include the following: financial assets at fair value through profit or loss, held-to-maturity financial assets and loans and receivables.

The Public Guardian and Trustee does not directly enter into derivative financial contracts.

Financial assets at fair value through profit or loss

Financial assets are designated at fair value through profit or loss upon initial recognition when the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund manages, evaluates and reports internally such investments on a fair value basis and makes purchase and sale decisions based on their fair value in accordance with their documented risk management or investment strategies. Upon initial recognition, transaction costs associated with the asset are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Public Guardian and Trustee does not acquire or hold financial instruments for the purpose of trading or short-term profit taking on behalf of the Estates and Trusts and the Administration Fund.

Financial assets at fair value through profit or loss comprise investments in client-owned bonds and other debt securities, the Diversified Fund, the Canadian Income and Dividend fund and client-owned equity securities.

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or when the rights to receive the contractual cash flows or when substantially all the risks and rights of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, OPGT has a legal right to offset the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

3. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(i) Financial assets (continued)

Held-to-maturity financial assets

If the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value, which includes any premium or discount, plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent these investment securities from being classified as held-to-maturity for the current and the following two financial years.

Held-to-maturity financial assets comprise investments in fixed income funds. Fixed income funds are funds invested in money-market instruments and in bonds under a laddered buy-and-hold strategy.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Loans and receivables comprise accounts receivable.

Loans and receivables of Estates and Trust clients are recognized initially on the date that the OPGT assumes guardianship of an individual's property or becomes the estate trustee. All other purchases and sales of financial assets (including assets designated at fair value through profit or loss) are recognized on the settlement date, which is the date that the financial assets are delivered to or on behalf of Estates and Trusts.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, current bank balances and short-term deposits with banks. All cash equivalents are highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

(ii) Financial liabilities

Financial liabilities are recognized initially on the date at which the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund become a party to the contractual provisions of the instrument. The Public Guardian and Trustee on behalf of the Estates and Trusts and the Administration Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial liabilities comprise accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs.

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

3. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(iii) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction on the measurement date. Fair value does not take into consideration transaction costs expected to be incurred on transfer or disposal of a financial instrument.

The Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Equity and fixed income securities publicly traded are measured at the bid price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counter party where appropriate.

All changes in fair value are recognized in profit or loss as part of net gain from financial instruments at fair value through profit or loss. Other interest and dividend income is recognized in profit and loss separately.

(iv) Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that its value is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired includes significant financial difficulty of the borrower, default or delinquency by a borrower, restructuring of an amount due on terms that the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund would not consider otherwise, indications that a borrower or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

3. Significant accounting policies (continued)

(d) Real estate and other assets

Real estate included within the statement of financial position primarily represents residential properties currently owned by clients of The Public Guardian and Trustee. Other assets comprise jewellery, art, collectibles, nominal assets, vehicles, cash value of insurance policies, prepaid funeral costs and similar items. The IFRS Framework identifies acceptable measurement bases for all assets, which include cost and fair value.

The policy is to measure real estate assets at historic cost and other assets at the fair value determined when the asset is initially recognized.

(e) Operating leases

All the leases entered into by the Public Guardian and Trustee on behalf of the Estates and Trusts and the Administration Fund are classified as operating leases and are not recognized in the statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for in the period in which they are incurred or when they are reasonably estimable and become known.

(f) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term employee benefit plans if the Administration Fund has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Post-employment benefits

Staff of the Public Guardian and Trustee are employees of the Ontario Public Service which provides pension benefits to its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund. The Province funds the employer's contribution to the Pension Funds. In addition, the cost of post-retirement, non-pension employee benefits are paid by the Province. As such, the Public Guardian and Trustee makes no contributions to these post-employment benefit plans. There is no contractual agreement or stated policy for charging the net benefit cost for the plans as a whole (measured in accordance with IAS 19, *Employee Benefits*) to individual reporting entities of the Government of Ontario. As a result, the costs associated with post-employment benefits are not reflected in the financial statements.

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

3. Significant accounting policies (continued)

(g) Income and expenses

Income from pensions, social benefits and settlements and items of a related nature is recognized when received or receivable. Other income comprising compensation, transaction and service fees are recognized as the related services are performed.

Expenses are recognized as incurred on an accrual basis. Investment management fees, placement and transaction fees that do not qualify for inclusion as part of the initial measurement of an asset are expensed as the services are received.

(h) Government grants

Grants are in the form of funding of the Public Guardian and Trustee operating expenses as the expenses are incurred and are recognized. Grants that compensate the Administration Fund for the operations of The Public Guardian and Trustee by way of amounts recovered from the Ministry of the Attorney General, are recognized in profit or loss as income on a systematic basis in the same periods in which the expenses are recognized.

(i) Income taxes

The Public Guardian and Trustee is exempt from federal and provincial income taxes under the Income Tax Act (Canada).

(j) Funds and reserves – Administration Fund

Assurance Fund

The *Public Guardian and Trustee Act* and the regulations under the Act provide that an Assurance Fund shall be established to meet losses for which The Public Guardian and Trustee might become liable. During the year, the Assurance Fund released and was reimbursed $198,932 (2017: $274,808) by the Unappropriated Fund.

Litigation Reserve Fund

This reserve is used to cover expenses and costs of legal proceedings paid by The Public Guardian and Trustee on behalf of its litigation guardian clients. During the year, legal costs incurred on behalf of clients of $136,643 (2017: $63,323) were released from this reserve and were reimbursed by the Unappropriated Fund.

Reserve for Doubtful Accounts

The intent of this reserve is to provide for all clients' accounts whereby The Public Guardian and Trustee has advanced funds on a client's behalf and has a statutory lien pursuant to section 8.1 of the *Public Guardian and Trustee Act* but may not be able to recover the amount from the client.

Capacity Assessment Fund

This reserve was set up to cover fees of capacity assessors when a client is unable to pay costs of an assessment or re-assessment. During the year, the Capacity Assessment Fund released and was reimbursed $15,674 (2017: $ -15,078) by the Unappropriated Fund.

Unappropriated Fund

Pursuant to Section 9(5) of the *Public Guardian and Trustee Act*, the Lieutenant Governor in Council may from time to time direct the payment into the Consolidated Revenue Fund of the Province of any balance at the credit of the Administration Fund. No such transfers were made during the year.

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

3. Significant accounting policies (continued)

(k) Provisions

A provision is recognized if, as a result of a past event, the Public Guardian and Trustee has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(l) New standards and interpretations not yet adopted

IFRS 9, Financial Instruments

IFRS 9 deals with recognition, derecognition, classification and measurement of financial assets and financial liabilities. Its requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial asset: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit and loss account (P&L). A financial asset would be measured at amortized cost if it is held within a business model whose object is to hold assets in order to collect contractual cash flows, and the asset's contractual cash terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual security-by-security basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss. However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The requirements of IFRS 9 relating to derecognition are unchanged from IAS 39.

The required implementation date of IFRS 9 is on or after 1 January 2018 and earlier application is permitted. Although early application is permitted, management does not plan to adopt this standard until necessary for the OPGT. Management expects that the adoption of this standard will not have a significant impact on the measurement of the amounts recognized in the financial statements.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. Management expects that the adoption of this standard will not have a significant impact to the operations of the OPGT.

IFRS 16, Leases

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The standard replaces IAS 17 'Leases' and the distinction between operating and finance leases is retained. The new standard is effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted. Management expects that the adoption of this standard will not have a significant impact to the operations of the OPGT.

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

4. Investments in financial assets

4.1 Estates and Trusts – cash and cash equivalents, bonds and other debt securities – client owned

As at March 31, 2018	**2018**	2017
(In thousands of dollars)		
Cash and cash equivalents		
Cash	19,231	24,426
Cash equivalents	65,432	64,397
	84,663	88,823
Client owned – Bonds and other debt securities		
Bonds – Federal Government	552	682
Bonds – Provincial Governments	629	683
Bonds – Corporate	14,955	13,227
Other Debt Securities – Financial institutions	45,332	44,273
	61,468	58,865
	146,131	**147,688**

These balances do not include client holdings by way of their investment in Public Guardian and Trustee Funds by virtue of their unit holdings in the various OPGT funds.

Cash equivalents, notes and bonds have an annual interest of between 0.0–7.5% (2017: 0.0–11.6%) and, at the reporting date, have remaining maturity periods ranging between 0–17 years (2017: 0–28 years).

Interest rates on mid term investments (notes and bonds with maturities greater than one year) are as follows:

	2018	2017
Bonds – Federal Government		
1–3 years	0.0–7.5%	0.0–3.5%
3 years +	0.5–1.0%	0.0–1.8%
Bonds – Provincial Governments		
1–3 years	1.3–2.3%	0.0–6.1%
3 years +	3.8–4.4%	3.8–4.3%
Bonds – Corporate		
1–3 years	0.0–5.8%	0.0–11.6%
3 years +	0.0–6.4%	0.0–8.9%
Financial institutions		
1–3 years	0.0–5.5%	0.0–5.5%
3 years +	0.0–5.0%	0.0–3.2%

Interest income is distributed to client accounts based on an interest rate as approved by The Public Guardian and Trustee's Investment Advisory Committee. During the year, the approved rate for Canadian funds from April 1, 2017 to February 28, 2018: 1.85% and March 1-30, 2018: 1.95% (April 1, 2016 to March 31, 2017: 2.00%), and for the United States Dollar funds from April 1, 2017 to November 30, 2017: 1.00%, December 1, 2017 to February 28, 2018: 1.25% and March 1-30, 2018: 1.50% (April 1, 2016 to June 30, 2016: 0.30% and July 1, 2016 to March 31, 2017: 0.75%).

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

4. Investments in financial assets (continued)

4.2 Diversified fund

The Public Guardian and Trustee has a Diversified fund that includes high quality equity and fixed income securities. This fund is a unitized trust and was established in order to provide an alternative for those clients whose investment objectives require a broader, longer range investment strategy. The fund is subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee with emphasis on the need to preserve and enhance capital over the longer term.

As at March 31, 2018 ***(In thousands of dollars)***	2018	2017
Cash	3,293	1,467
Short-term notes	4,545	1,819
Bonds	69,217	56,384
Canadian equity securities	52,996	66,227
Foreign equity securities	50,872	48,657
Net other assets/(liabilities)	256	(651)
	181,179	173,903

The short-term notes and bonds yield, on a fair value basis, annual interest of between 0.0–8.8% (2017: 0.5–9.9%) and, at the reporting date, have remaining maturity periods ranging between 62 days to 91 years (2017: 122 days to 91 years). The weighted average yield on investments in Canadian and Foreign equity securities is 2.47% (2017: 2.31%).

The financial assets held in the Diversified fund as at March 31, 2018 are held by:

In thousands of dollars	2018	2017
Estates and Trusts	93,494	90,970
Administration Fund	87,685	82,933
	181,179	173,903

The investment returns on this fund accrue directly to the unit holders.

4.3 Canadian income and dividend fund

The Public Guardian and Trustee has a Canadian income and dividend fund that consists of a balanced portfolio of high quality income-producing Canadian securities. The fund includes dividend-paying common and preferred equities and fixed income securities intended to generate a consistent stream of income and long-term capital appreciation. The fund is subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee.

As at March 31, 2018 ***(In thousands of dollars)***	2018	2017
Cash	77	276
Short-term notes	3,175	2,766
Bonds	51,681	53,895
Canadian equity securities	70,063	66,849
Other assets	204	-
	125,200	123,786

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

4. Investments in financial assets (continued)

4.3 Canadian income and dividend fund (continued)

The short term notes and bonds yield, on a fair value basis, annual interest of between 0.0–8.0% (2017: 1.04–8.0%) and, at the reporting date, have remaining maturity periods ranging between 75 days to 91 years (2017: 42 days to 92 years). The average yield on investments in Canadian equity securities is 4.47% (2017: 4.16%).

The financial assets held in the Canadian Income and Dividend Fund as at March 31 are held by:

(In thousands of dollars)	2018	2017
Estates and Trusts	99,091	98,000
Administration Fund	26,109	25,786
	125,200	123,786

The income earned in this fund may be distributed in cash to unit holders monthly or reinvested in this fund.

4.4 Equity securities – client owned

As at March 31, 2018 *(In thousands of dollars)*	2018	2017
Canadian listed securities	51,276	37,790
United States listed securities	1,737	1,382
Other listed securities	5,260	2,908
Unlisted securities	68	72
	58,341	42,152

These balances do not include indirect client holdings by way of their investment in Public Guardian and Trustee Funds by virtue of unit holdings in the various OPGT funds.

4.5 Fixed Income Funds

As at March 31, 2018 *(In thousands of dollars)*	2018	2017
Bonds – Federal Government	48,850	52,785
Bonds – Provincial and Municipal Governments	612,119	464,273
Bonds – Corporate	707,813	751,689
Cash and Accrued Interest	11,362	10,098
	1,380,144	1,278,845

The bonds yield (at cost) annual interest of between 1.55-5.24% (2017: 1.07-5.45%) and, at the reporting date, have remaining maturity periods ranging between 2 days to 6 years (2017: 3 days to 5 years).

The financial assets held in the fixed income funds As at March 31, 2018 are held by:

In thousands of dollars	2018	2017
Estates and Trusts	1,370,240	1,273,686
Administration Fund	9,904	5,159
	1,380,144	1,278,845

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

5. Financial risk management

The Public Guardian and Trustee has exposure to credit risk, liquidity risk and market risk arising from financial instruments. This note presents information about OPGT's exposure to each of the above risks, and the OPGT's objectives, policies and processes for management of capital and measuring and managing risk.

5.1 Credit risk

Management of credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Public Guardian and Trustee, resulting in a financial loss to the Estates and Trusts and the Administration Fund. It arises principally from debt securities held and accounts receivable.

The Public Guardian and Trustee mitigates this risk by engaging experienced investment managers and structuring their investment policies and goals to minimize the risk to clients' capital. In particular, investments in lower investment grade fixed income instruments (typically a rating of BBB) are minimized. As well, investment managers are required to report immediately adverse changes in the credit ratings of financial instruments.

Client accounts receivable are reviewed on an individual basis; any necessary adjustments to amounts recorded are made at that time.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date for the financial assets of both Estates and Trusts and the Administration Fund was:

As at March 31, 2018 *(In thousands of dollars)*	2018	2017
Cash and cash equivalents	85,382	89,066
Accounts receivable	6,949	7,950
Investments at fair value through profit or loss:		
Bonds and other debt securities– client owned	61,468	58,865
Diversified fund	77,055	59,511
Canadian income and dividend fund	54,933	57,580
Held to maturity investments:		
Fixed income funds	1,380,144	1,278,845
	1,665,931	1,551,817

Credit quality

As at March 31, Estates and Trusts and the Administration Fund hold unit investments in the Public Guardian and Trustee's unit funds that have underlying debt securities with the following credit quality:

Debt Securities

	2018	2017
AAA/Aaa	22.96%	15.07%
AA/Aa	74.77%	83.59%
BBB/Baa	2.27%	1.34%

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

5. Financial risk management (continued)

5.1 Credit risk (continued)

Concentration of credit risk
As at March 31, the debt securities of Estates and Trusts and the Administration Fund hold unit investments in the Public Guardian and Trustee's unitized funds that have underlying debt securities that were concentrated in the following sectors:

Debt Securities	2018	2017
Government and public sector	64.42%	61.50%
Banks and financial services	30.01%	34.10%
Other corporate	5.57%	4.40%

Past due and impaired assets
No financial assets carried at amortized cost were past due or impaired at March 31, 2018.

5.2 Liquidity risk

Liquidity risk is the risk that investment managers engaged by the Public Guardian and Trustee will not be able to easily liquidate a financial asset or liability.

The objective of the Public Guardian and Trustee is to ensure that adequate financial resources are available to meet ongoing requirements and to discharge the obligations of Estates and Trusts and the Administration Fund. The Public Guardian and Trustee mitigates liquidity risk by maintaining significant holdings in short-term, liquid, money market instruments within OPGT's fixed income funds.

Maturity analysis for financial instruments
As at March 31, 2018, the financial assets and liabilities of Estates and Trusts and the Administration Fund had the following remaining contractual maturity profile:

2018

In thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	85,382	85,382	-	-
Accounts receivable	6,949	6,270	-	679
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	61,468	23,973	25,442	12,053
Diversified fund	181,179	108,757	107	72,315
Canadian income and dividend fund	125,200	70,171	1,134	53,895
Equity securities – client owned	58,341	58,341	-	-
Held to maturity investments:				
Fixed income funds	1,380,144	57,312	166,315	1,156,517
	1,898,663	410,206	192,998	1,295,459
Financial liabilities				
Accounts payable and accrued liabilities	79,242	7,649	-	71,593
Net assets attributable to beneficiaries of Estates and Trusts	1,824,750	1,505,956	41,009	277,785
	1,903,992	1,513,605	41,009	349,378

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

5. Financial risk management (continued)

5.2 Liquidity risk (continued)

2017

In thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	89,066	89,066	-	-
Accounts receivable	7,950	7,423	-	527
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	58,865	20,159	10,303	28,403
Diversified fund	173,903	116,420	2,789	54,694
Canadian income and dividend fund	123,786	69,860	3,342	50,584
Equity securities – client owned	42,152	42,152	-	-
Held to maturity investments:				
Fixed income funds	1,278,845	187,369	193,123	898,353
	1,774,567	532,449	209,557	1,032,561
Financial liabilities				
Accounts payable and accrued liabilities	65,054	8,079	-	56,975
Net assets attributable to beneficiaries of Estates and Trusts	1,713,225	1,408,803	36,304	268,118
	1,778,279	1,416,882	36,304	325,093

5.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect investment income or the value of the holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Market risk comprises currency risk, interest rate risk and other price risks (including equity price risk).

5.3.1 Currency risk

Currency risk is the risk that the fair value of investment assets and earnings on those assets will fluctuate as a result of changes in foreign exchange rates. Investments in the Diversified Fund are exposed to this risk which is also part of the return potential in the fund. Hedging foreign currency exposure is considered by management as part of an annual review of investment policies.

At March 31, the carrying value of net financial assets and liabilities held in foreign currencies expressed in Canadian Dollars is as follows:

In thousands of dollars	2018	2017
Estates and Trusts		
United States Dollars	34,499	30,755
Euros	6,539	10,269
Other foreign currencies	11,394	8,081
	52,432	49,105

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

5. Financial risk management (continued)

5.3 Market risk (continued)

5.3.1 Currency risk (continued)

The table below sets out the impact on net financial assets and liabilities from a reasonably possible weakening of the Canadian Dollar against the other currencies by 5% (2017: 5%) at March 31. The analysis assumes that all other variables, in particular interest rates, remain constant.

In thousands of dollars	2018	2017
United States Dollars	1,725	1,538
Euros	327	513
Other foreign currencies	570	404
	2,622	2,455

A strengthening of the Canadian Dollar against the other currencies would have resulted in a proportionate but opposite effect to the amounts shown above.

5.3.2 Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. By adopting a hold to maturity policy on its fixed income funds, the Public Guardian and Trustee has significantly mitigated this risk, particularly for short-term, temporary movements in market interest rates.

The table below sets out the impact on the net financial assets and liabilities from a reasonably possible increase of 50-75 basis points in interest rates as at March 31. The impact of such an increase has been estimated by calculating the fair value changes of the fixed interest debt securities, excluding the fixed income funds which are held to maturity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

In thousands of dollars	2018	2017
Impact on client (Estates and Trusts) and Administration fund assets	(2,309)	(1,660)

5.3.3 Equity price risk

Equity price risk is the risk that the fair value of equity securities will fluctuate as a result of changes in the market price of equity instruments whether caused by factors specific to an individual investment or factors affecting all instruments traded in the market which, for international equities, includes changes in currency rates.

The Public Guardian and Trustee has mitigated this risk by engaging experienced investment managers and structuring their investment policies and goals, including limits on the holding of individual securities, limits on the investments in non-government debt, and defining asset component ranges to minimize the risk to clients' capital. As well, investments in financial instruments that are subject to changes in market prices, including equity securities, are undertaken only when the client can invest for a medium to longer term.

Investments are made in funds, namely the Diversified fund and the Canadian income and dividend fund that have the following benchmarks for concentration of asset portfolios:

Diversified fund:

- Equity investments listed on Canadian stock exchanges - 50% of fund assets
- Equity investments listed on US stock exchanges - 25% of fund assets
- Equity investments listed on other stock exchanges - 25% of fund assets
- Unlisted equity investments - none

Canadian income and dividend fund:

- Equity investments listed on Canadian stock exchanges - 100% of fund assets

Investment managers are permitted to vary from these benchmarks within stipulated limits.

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

5. Financial risk management (continued)

5.3 Market risk (continued)

5.3.3 Equity price risk (continued)

Investment managers further monitor concentration of risk based on counterparties and industry sectors. At March 31, equity investments are concentrated in the following sectors:

	2018	2017
Banks and financial services	54%	51%
Information technology	9%	11%
Retail	6%	8%
Industrial and manufacturing	27%	24%
Other	4%	6%
	100%	100%

Investment managers engaged by the Public Guardian and Trustee estimate future reasonably possible equity price fluctuations for equity securities on an individual investment basis. The table below sets out the impact on the net financial assets and liabilities from a reasonably possible decrease of 10% in the price of individual equity securities as at March 31. This analysis assumes that all other variables, in particular interest and foreign currency rates, remain constant.

In thousands of dollars	2018	2017
Impact on value of equity securities	(23,227)	(22,388)

A strengthening in the individual equity market prices of 10% as at March 31 would have resulted in a proportionate but opposite effect to the amounts shown above.

5.4 Fair value disclosures

The accounting policy for fair value measurements is detailed in accounting policy 3c(iii).

5.4.1 Fair values versus carrying amounts

The carrying amounts approximate fair value for all financial assets and liabilities, except for the fixed income funds, which are held to maturity investments, and for real estate whose fair values for the Estates and Trusts administered by OPGT are $1,359,364 (2017: $1,283,301) and $130,475 (2017: $121,720) respectively. As a result, the fair value of net assets attributable to beneficiaries of Estates and Trust clients is $1,832,719 (2017: $1,742,756).

5.4.2 Fair value hierarchy

The fair value measurements used by the Public Guardian and Trustee place the highest priority on observable market inputs and the lowest priority on unobservable internally developed inputs. Accordingly, the Public Guardian and Trustee classifies its assets and liabilities that are measured at fair value, or for which fair value information is disclosed, within a three-level valuation hierarchy that reflects the inputs to valuation techniques used to determine fair value. Level 1 represents valuations based on unadjusted quoted prices in active markets for identical assets or liabilities, level 2 comprises valuations using models or techniques that incorporate observable market information and level 3 comprises valuations based models without observable market information as inputs. The classification determination is based on the lowest level of input that is significant to the valuation.

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

5. Financial risk management (continued)

5.4 Fair value disclosures (continued)

5.4.2 Fair value hierarchy (continued)

The following fair value hierarchy table presents information about financial assets measured at fair value on a recurring basis as of March 31, 2018 and March 31, 2017.

Estates and Trusts

As of March 31, 2018 *In thousands of dollars*	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	84,663	-	-	84,663
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	-	61,468	-	61,468
Diversified fund	93,494	-	-	93,494
Canadian income and dividend fund	99,091	-	-	99,091
Equity securities – client owned	58,277	64	-	58,341
	335,525	61,532	-	397,057

As of March 31, 2017 *In thousands of dollars*	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	88,823	-	-	88,823
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	-	58,865	-	58,865
Diversified fund	90,970	-	-	90,970
Canadian income and dividend fund	98,000	-	-	98,000
Equity securities – client owned	42,080	72	-	42,152
	319,873	58,937	-	378,810

Administration Fund

As of March 31, 2018 *In thousands of dollars*	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	719	-	-	719
Investments at fair value through profit or loss:				
Diversified fund	87,685	-	-	87,685
Canadian income and dividend fund	26,109	-	-	26,109
	114,513	-	-	114,513

As of March 31, 2017 *In thousands of dollars*	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	243	-	-	243
Investments at fair value through profit or loss:				
Diversified fund	82,933	-	-	82,933
Canadian income and dividend fund	25,786	-	-	25,786
	108,962	-	-	108,962

The following was used to determine the fair value measurements categorized in Level 2:

- The fair value of bonds and equities was determined by obtaining quoted market prices or executable dealer quotes for identical or similar instruments in inactive markets, or other inputs that are observable or can be corroborated by observable market data.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During 2018 and 2017 there were no significant transfers of financial instruments between Level 1 and Level 2.

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

5. Financial risk management (continued)

5.5 Capital management

The Public Guardian and Trustee's operating capital is shown in the Administration Fund, and consists of various specific purpose funds and an unappropriated fund (detailed in the statement of changes in equity of the Administration Fund). The Public Guardian and Trustee is not subject to externally imposed capital requirements.

The Public Guardian and Trustee's objectives when managing its Administration Fund are to safeguard its ability to continue operations and provide adequate resources to service clients and safeguard clients' interests. The Public Guardian and Trustee expects its current capital (fund) resources, together with future cash flows from operations, to be sufficient to support The Public Guardian and Trustee's ability to operate on an ongoing basis. The objectives have not changed during the year.

The Public Guardian and Trustee has invested part of its Administration Fund in the Diversified and Canadian income and dividend funds. Investment income earned is, in part, used to replenish the various specific purpose funds for expenses incurred.

6. Accounts receivable

As at March 31, 2018

In thousands of dollars

	Estates and Trusts 2018	Estates and Trusts 2017	Administration Fund 2018	Administration Fund 2017
Accrued revenue	-	-	2,712	2,760
Balances due from the Federal and Provincial Government, its Agencies and Crown Corporations	-	-	25	24
Balances due from the Administration Fund	2,118	2,107	-	-
Other receivables	2,070	3,056	24	3
	4,188	5,163	2,761	2,787

7. Other assets

As at March 31, 2018

In thousands of dollars

	Estates and Trusts 2018	Estates and Trusts 2017	Administration Fund 2018	Administration Fund 2017
Life Insurance	7,900	6,442	-	-
Prepaid Funerals, Cemetery plots and burial Instruments	5,053	5,018	-	-
Furniture and Medical Aid Equipment	839	824	-	-
Jewellery	987	1,036	-	-
Vehicles	762	401	-	-
Collectibles	165	206	-	-
Art	8	6	-	-
Other	267	286	-	-
	15,981	14,219	-	-

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

8. Accounts payable and accrued liabilities

As at March 31, 2018 *In thousands of dollars*	Estates and Trusts 2018	Estates and Trusts 2017	Administration Fund 2018	Administration Fund 2017
Accrued expenses	2,620	2,678	2,709	2,490
Balances due to the Federal and Provincial Government, its Agencies and Crown Corporations	22,843	14,628	-	-
Balances due to Estates and Trusts	-	-	2,118	2,107
Other liabilities of Estates and Trust clients	48,952	43,151	-	-
	74,415	60,457	4,827	4,597

Other liabilities of Estates and Trusts include mortgages payable, credit card balances, health facility accommodation fees, and charges for services such as telecommunication and utilities.

9. Fees charged by the Administration Fund to Estates and Trusts

For the period ended March 31, 2018 *In thousands of dollars*	Administration Fund 2018	Administration Fund 2017
Client trusts	22,666	21,776
Minors	2,504	2,494
Deceased Estates	3,256	2.992
Litigants	2,306	1,942
Cemetery trusts	208	201
Forfeited corporate assets/corporate trusts	52	54
	30,992	29,459

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

10. Other interest and dividend income

For the period ended March 31, 2018

In thousands of dollars

	Estates and Trusts 2018	Estates and Trusts 2017	Administration Fund 2018	Administration Fund 2017
Earned on investments at fair value through profit or loss				
Bonds and other debt securities – client owned	2,891	2,475	-	-
Diversified fund	2,551	2,233	2,360	2,004
Canadian income and dividend fund	3,472	3,367	921	872
Earned on loans and receivables				
Accounts receivable	272	216		
	9,186	8,291	3,281	2,876

11. Gain/loss on investments

11.1 Net realized gain on sale of investments at fair value through profit or loss

For the period ended March 31, 2018

In thousands of dollars

	Estates and Trusts 2018	Estates and Trusts 2017	Administration Fund 2018	Administration Fund 2017
Bonds and other debt securities – client owned	272	27	-	-
Diversified fund	2,839	2,723	4,480	2,909
Equity securities-client owned	2,311	2,135	-	-
	5,422	4,885	4,480	2,909

11.2 Net change in unrealized gain/(loss) on investments at fair value through profit or loss

For the period ended March 31, 2018

In thousands of dollars

	Estates and Trusts 2018	Estates and Trusts 2017	Administration Fund 2018	Administration Fund 2017
Bonds and other debt securities – client owned	824	70	-	-
Diversified fund	(390)	5,613	(2,251)	4,581
Canadian income and dividend fund	(2,285)	6,470	(598)	1,679
Equity securities-client owned	7,979	5,480	-	-
	6,128	17,633	(2,849)	6,260

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

	Administration Fund 2018	Administration Fund 2017
12. Investment expenses		
For the period ended March 31, 2018		
In thousands of dollars		
Investment management fees	1068	1,001
Investment dealer fees	773	711
Custodian fees	323	316
Investment counsel fees	144	52
Bank charges	292	316
	2,600	2,396
13. Salaries, wages and benefits		
For the period ended March 31, 2018		
In thousands of dollars		
Salaries and wages	31,753	30,994
Compulsory employer contributions	2,057	2,044
Other benefits	2,029	1,406
Termination benefits	306	874
	36,145	35,318
14. General Administration		
For the period ended March 31, 2018		
In thousands of dollars		
Systems Development and Data Processing	2,104	1,718
Leases and rentals	304	402
Training and education	71	110
Security	141	160
Miscellaneous expenses	657	872
	3,277	3,262

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

15. Related party transactions

The Government of the Province of Ontario, its Agencies and its Crown Corporations are related parties to the Public Guardian and Trustee. Under IFRS, a reporting entity is exempt from the disclosure requirements of IAS 24, *Related Party Disclosures* in relation to related party transactions and outstanding balances, including commitments, with a government that has control, joint control or significant influence over the reporting entity and another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The Public Guardian and Trustee has utilized this exemption in preparing these financial statements.

In the normal course of business, transactions occur with the Government of the Province of Ontario, its Agencies and its crown Corporations and include the following types of transactions and outstanding balances, all of which have been recognized in these financial statements:

a) Investments in certain financial instruments that are issued by these related parties;
b) Expenditure on certain services including information technology and telecommunication costs provided by these related parties; and
c) The Province of Ontario provides funding for the operations of OPGT including expenditures relating to salaries, wages and benefits, transportation and communication costs, supplies, equipment and general administrative costs. In addition, OPGT remits surplus income to the Province of Ontario on a quarterly basis. During the year the Province provided funding amounting to $40,572,322 (2017: $39,948,875) and recovered $22,091,879 (2017: $21,600,625), for a net grant by the Province of $18,480,443 (2017: $18,348,249).

In addition, in the normal course of business, the following transactions are entered into with these related parties at no charge to the Public Guardian and Trustee and therefore are not reflected in the financial statements:

a) Staff of the Public Guardian and Trustee are employees of the Ontario Public Service which provides pension benefits to its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund. The Province funds the employer's contribution to the Pension Funds;
b) The cost of post-retirement, non-pension employee benefits are paid by the Province;
c) The Public Guardian and Trustee occupies leased premises paid for by the Ministry of the Attorney General; and
d) The Province provides payroll and payment processing for the Public Guardian and Trustee.

Key management personnel compensation

Staff, including key management personnel are employees of the Ministry of the Attorney General, Ontario Public Service (OPS). All management compensation is in accordance with Management Board of Cabinet Compensation Directives and compensation follows approved OPS compensation practices. This includes public disclosure for all individuals earning more than $100,000 in a calendar year.

The benefit costs as set out in the schedule below does not include any specific post–employment, termination or other long term benefits but the cost of these benefits are funded by the Province as set out in Note 3(f) (ii).

In addition to the salaries and mandatory employer contributions to government programs (Canada Pension Plan and Employment Insurance), senior managers also participate in various group life, health and dental plans for which the employer shares the premiums.

The Public Guardian and Trustee for the Province of Ontario

Notes to financial statements (continued)
March 31, 2018 and March 31, 2017

15. Related party transactions (continued)

Key management personnel are members of the OPGT's Office management committee. Their compensation comprises the following:

In thousands of dollars	Administration Fund 2018	Administration Fund 2017
Salaries and Wages	947	922
Employee benefits	21	14

16. Funds Escheated to the Crown

Deceased Estates include estates administered under the *Crown Administration of Estates Act* and the *Estates Act*. The Public Guardian and Trustee is authorized by the *Escheats Act* to take possession of property reverting to the Crown under the *Succession Law Reform Act*. After a period of ten years, any property so received by the Public Guardian and Trustee which remains unclaimed is required to be transferred to the Consolidated Revenue Fund (CRF) of the Province of Ontario. Such property transfers to the CRF are included in the statement of changes in net assets attributable to beneficiaries of Estates and Trusts. During the year, escheats from Deceased Estates totalling $516,610 (2017: $249, 025) were transferred to the CRF.

Under the *Escheats Act*, the Public Guardian and Trustee may take possession of assets of dissolved corporations which have been forfeited to the Crown under various corporate statutes. Such property transfers to the CRF are included in the statement of changes in net assets attributable to beneficiaries of Estates and Trusts. During the year, $133,377 (2017: $5,420,207) was transferred to the CRF during the year.

17. Contingencies and commitments

The Public Guardian and Trustee is involved in various legal actions arising in the normal course of business operations, the outcome and ultimate disposition of which are not determinable at this time. Liabilities for any settlements will be recognized if and when the criteria for recognizing provisions is met (see accounting policy note 3 (k)).

The Public Guardian and Trustee is one of several defendants to a multi- million dollar civil lawsuit. The Public Guardian and Trustee, based on information available, believes that it may be found liable for some portion of any settlement that may be forthcoming from the litigation process. However, at this time, because of multiple defendants and the complexities of the litigation, it is not possible to assess a degree of probability concerning any amount of potential liability. As a result, the Public Guardian and Trustee has not included a provision for any potential liability in these financial statements.

The Public Guardian and Trustee estimates that any potential settlement is within financial resources available and will have no adverse effect on the ongoing operations of the Public Guardian and Trustee.

WORKPLACE SAFETY AND INSURANCE BOARD

RESPONSIBILITY FOR FINANCIAL REPORTING

Role of Management

The accompanying consolidated financial statements are the responsibility of the management of the Workplace Safety and Insurance Board (the “WSIB”) and have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements include amounts based on management's best estimates and judgments.

Management is responsible for the preparation and fair presentation of these consolidated financial statements and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors has established an Audit and Finance Committee to oversee that management fulfills these responsibilities. The Audit and Finance Committee meets periodically with management, internal auditors, and external auditors to oversee that their responsibilities are properly discharged with respect to the application of critical accounting policies, consolidated financial statement presentation, disclosures, and recommendations on internal controls.

Role of the Chief Actuary

With respect to the preparation of the consolidated financial statements, the Chief Actuary works with the WSIB actuarial staff to prepare a valuation, including the selection of appropriate assumptions applicable to the WSIB’s benefit liabilities at the consolidated statements of financial position date to determine the valuation of benefit liabilities. Additionally, the Chief Actuary provides an opinion to the Board of Directors regarding the appropriateness of the benefit liabilities recorded by management of the WSIB at the date of the consolidated statements of financial position. The work to form that opinion includes an examination of the sufficiency and reliability of data and a review of the valuation processes. The Chief Actuary is responsible for assessing whether the assumptions and methods used for the valuation of the benefit liabilities are in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives. In performing the valuation of these liabilities, which are by their very nature inherently variable, the Chief Actuary makes assumptions as to future interest and mortality rates, expenses, related trends, and other contingencies, taking into consideration the circumstances of the WSIB. It is certain that the benefit liabilities will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for future claim categories not sufficiently recognized in the claims experience and inventories. The Chief Actuary’s report outlines the scope of the valuation and his opinion.

Role of the External Auditors

The external auditors, Ernst & Young LLP, working under the direction of the Auditor General of Ontario, have performed an independent and objective audit of the consolidated financial statements of the WSIB in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors make use of the work of the Chief Actuary and his report on the benefit liabilities of the WSIB. The external auditors have full and unrestricted access to the Board of Directors and the Audit and Finance Committee to discuss audit, financial reporting, and related findings. The external auditors’ report outlines the scope of their audit and their opinion on the consolidated financial statements of the WSIB.

Thomas Teahen
President and Chief Executive Officer
April 19, 2018
Toronto, Ontario

Pamela Steer
Chief Financial Officer

WORKPLACE SAFETY AND INSURANCE BOARD

INDEPENDENT AUDITORS' REPORT

To the Workplace Safety and Insurance Board,

The Minister of Labour and the Auditor General of Ontario

Pursuant to the Workplace Safety and Insurance Act, 1997 (Ontario), which provides that the accounts of the **Workplace Safety and Insurance Board** (the "WSIB") shall be audited by the Auditor General of Ontario or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose, we have audited the accompanying consolidated financial statements of the WSIB, which comprise the consolidated statements of financial position as at December 31, 2017, the consolidated statements of comprehensive income, changes in net (deficiency of) assets, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the WSIB as at December 31, 2017 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 19, 2018

WORKPLACE SAFETY AND INSURANCE BOARD

ACTUARIAL OPINION

On the Valuation of the Benefit Liabilities of the Workplace Safety and Insurance Board as at December 31, 2017

I have completed the actuarial valuation of the benefit liabilities of the Workplace Safety and Insurance Board (the “WSIB”) for its consolidated statements of financial position as at December 31, 2017 (the “valuation date”).

In my opinion, the benefit liabilities of $28,290 million make reasonable provision for future payments for loss of earnings, other short and long-term disability, health care, survivor and retirement income benefits with respect to claims which occurred on or before the valuation date, and for occupational disease claims expected to arise after the valuation date as a result of exposures incurred in the workplace on or before the valuation date in respect of occupational diseases with a long latency period that are recognized by the WSIB. This amount provides for future claim administration costs, but does not include a provision for claims related to workers of Schedule 2 employers.

The valuation was based on the provisions of the *Workplace Safety and Insurance Act, 1997 (Ontario)*, (the “WSIA”) and on the WSIB's policies and administrative practices in effect at the time of the valuation. This includes the December 14, 2017 passage of Bill 177 titled *Stronger, Fairer Ontario Act (Budget Measures), 2017*, in which Schedule 45 amended section 13 of the WSIA to provide Chronic Mental Stress (“CMS”) benefits for diagnoses on or after April 29, 2014 and before January 1, 2018.

The data on which the valuation is based were provided by the WSIB; I applied such checks of reasonableness of the data as I considered appropriate, and have concluded that the data are sufficiently reliable to permit a realistic valuation of the liabilities and are consistent with the WSIB’s consolidated financial statements. In my opinion, the data on which the valuation is based are sufficient and reliable for the purpose of the valuation.

The economic assumptions adopted for purposes of computing the liabilities have been selected taking account of the WSIB’s strategic plan and investment policies and were unchanged from the previous valuation. For this valuation, an annual discount rate of 4.50% was used to discount expected payments. Other economic assumptions underlying the calculations include annual changes in the Consumer Price Index (“CPI”) of 2.0%, annual health care costs and annual wage escalation rates of 4.0% and 3.0% respectively. In my opinion, the assumptions are appropriate for the purpose of the valuation.

The methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. Projections of future claim payments and awards have been made using factors developed from the WSIB’s claims experience, mortality and other assumptions. In my opinion, the methods employed in the valuation are appropriate for the purpose of the valuation.

Changes to the actuarial basis include updates to the outstanding loss of earnings locked-in claim profile, loss of earnings arrears factors, future awards benefits claim profile assumptions and long latency occupational disease claim cost factors. Another change included using four years of experience (previous valuation used three years of experience) in determining the projected counts for future awards benefits. The impact of the changes in actuarial assumptions and methods on the benefit liabilities is disclosed in note 18 to the consolidated financial statements.

Details of the data, actuarial assumptions, valuation methods and analysis of results are set out in my actuarial report as at the valuation date, of which this statement of opinion forms part.

WORKPLACE SAFETY AND INSURANCE BOARD

In my opinion, the amount of the benefit liabilities makes appropriate provision for all personal injury compensation obligations and the consolidated financial statements fairly represent the results of the valuation. This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.

Donald Blue, FCIA, FSA
Vice President and Chief Actuary
Workplace Safety and Insurance Board
April 19, 2018
Toronto, Ontario

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Financial Position
(millions of Canadian dollars)

	Note	December 31 2017	December 31 2016[1]
Assets			
Cash and cash equivalents	4	2,586	2,496
Receivables and other assets	5	1,387	1,644
Public equity securities	7	13,414	11,382
Fixed income securities	7	6,800	6,865
Derivative assets	9	342	72
Investment properties	7	1,340	1,315
Investments in associates and joint ventures	10	1,641	581
Other invested assets	7	7,910	6,820
Property, equipment and intangible assets	13	302	316
Total assets		**35,722**	**31,491**
Liabilities			
Payables and other liabilities	14	1,185	1,112
Derivative liabilities	9	88	243
Long-term debt		115	132
Loss of Retirement Income Fund liability	15	1,915	1,790
Employee benefit plans liability	16	1,611	1,290
Benefit liabilities	18	28,290	27,920
Total liabilities		**33,204**	**32,487**
Net (deficiency of) assets			
Deficit		(792)	(4,309)
Accumulated other comprehensive income		82	384
Unfunded liability attributable to WSIB stakeholders		**(710)**	**(3,925)**
Non-controlling interests	23	3,228	2,929
Total net (deficiency of) assets		**2,518**	**(996)**
Total liabilities and net (deficiency of) assets		**35,722**	**31,491**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

Approved by the Board of Directors

Elizabeth Witmer

Elizabeth Witmer
Chair
April 19, 2018

Lea Ray
Audit and Finance Committee (Chair)
April 19, 2018

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Comprehensive Income
For the years ended December 31
(millions of Canadian dollars)

	Note	2017	2016[1]
Revenues			
Premiums	17	4,879	4,989
Net mandatory employer incentive programs	17	(100)	(181)
Net premiums		**4,779**	**4,808**
Investment income	6	3,092	1,662
Investment expenses	6	(178)	(158)
Net investment income		**2,914**	**1,504**
Total revenues		**7,693**	**6,312**
Expenses			
Claim payments	18	2,360	2,252
Claim administration costs	18	417	405
Change in actuarial valuation of benefit liabilities	18	370	90
Total claim costs		**3,147**	**2,747**
Loss of Retirement Income Fund contributions	15	56	56
Administration and other expenses		409	376
Legislated obligations and funding commitments		252	244
Total expenses		**3,864**	**3,423**
Excess of revenues over expenses		**3,829**	**2,889**
Other comprehensive loss			
Item that will not be reclassified subsequently to income			
Remeasurements of employee benefit plans	16	273	35
Item that will be reclassified subsequently to income			
Translation losses from net foreign investments		32	8
Total other comprehensive loss		**305**	**43**
Total comprehensive income		**3,524**	**2,846**

		2017	2016[1]
Excess of revenues over expenses attributable to:			
WSIB stakeholders		3,517	2,716
Non-controlling interests	23	312	173
		3,829	**2,889**
Total comprehensive income attributable to:			
WSIB stakeholders		3,215	2,674
Non-controlling interests	23	309	172
		3,524	**2,846**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Changes in Net (Deficiency of) Assets
For the years ended December 31
(millions of Canadian dollars)

	Note	2017	2016[1]
Deficit			
Balance at beginning of year		(4,309)	(7,025)
Excess of revenues over expenses		3,517	2,716
Balance at end of year		(792)	(4,309)
Accumulated other comprehensive income (loss)			
Balance at beginning of year		384	426
Remeasurements of employee benefit plans	16	(273)	(35)
Translation differences from net foreign investments		(29)	(7)
Balance at end of year		82	384
Unfunded liability attributable to WSIB stakeholders		**(710)**	**(3,925)**
Non-controlling interests			
Balance at beginning of year	23	2,929	2,802
Excess of revenues over expenses	23	312	173
Translation differences from net foreign investments	23	(3)	(1)
Change in ownership share in investments	23	(10)	(45)
Balance at end of year		**3,228**	**2,929**
Total net (deficiency of) assets		**2,518**	**(996)**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Cash Flows
For the years ended December 31
(millions of Canadian dollars)

	Note	2017	2016[1]
Operating activities:			
Total comprehensive income		3,524	2,846
Adjustments:			
Amortization of net premium (discount) on investments		(18)	1
Depreciation and amortization of property, equipment and intangible assets	13	34	22
Changes in fair value of investments		(2,468)	(1,126)
Changes in fair value of investment properties		15	72
Translation losses from net foreign investments		32	8
Dividend income from public equity securities		(456)	(354)
Income from investments in associates and joint ventures	10	(101)	(60)
Interest income		(170)	(227)
Interest expense		8	8
Total comprehensive income after adjustments		**400**	**1,190**
Changes in non-cash balances related to operations:			
Receivables and other assets, excluding those related to investing activities		(6)	(75)
Payables and other liabilities, excluding those related to investing and financing activities		50	25
Loss of Retirement Income Fund liability	15	125	66
Employee benefit plans liability	16	321	68
Benefit liabilities	18	370	90
Total changes in non-cash balances related to operations		860	174
Net cash provided by operating activities		**1,260**	**1,364**
Investing activities:			
Dividends received from public equity securities, associates and joint ventures		508	373
Interest received		180	223
Purchases of property, equipment and intangible assets	13	(20)	(54)
Purchases of investments		(18,673)	(13,700)
Proceeds on sales and maturities of investments		17,908	12,751
Net additions to investment properties		(40)	(29)
Acquisitions of investments in associates and joint ventures		(1,160)	(18)
Proceeds on dispositions of associates and joint ventures		143	37
Net cash required by investing activities		**(1,154)**	**(417)**
Financing activities:			
Proceeds on dispositions of non-controlling interests		188	132
Distributions paid by subsidiaries to non-controlling interests		(198)	(177)
Net issuance of debt		2	20
Interest paid on debt		(8)	(7)
Net cash required by financing activities		**(16)**	**(32)**
Net increase in cash and cash equivalents		**90**	**915**
Cash and cash equivalents, beginning of year		2,496	1,581
Cash and cash equivalents, end of year		**2,586**	**2,496**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Notes to Consolidated Financial Statements
December 31, 2017
(millions of Canadian dollars)

1. Nature of Operations

The Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario (the "Province"), Canada. As a board-governed trust agency, in accordance with the Agencies and Appointments Directive, the WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA"), which establishes a no-fault insurance scheme that provides benefits to workers who experience workplace injuries or illnesses.

The WSIB promotes workplace health and safety in the Province and provides a workplace compensation system for Ontario based employers and workers. The WSIB is funded by employer premiums and does not receive any government funding or assistance. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims.

The WSIB's registered office is located at 200 Front Street West, Toronto, Ontario, M5V 3J1.

2. Significant Accounting Policies, Estimates and Assumptions

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities, which are measured at fair value, as explained in the accounting policies below.

The consolidated financial statements for the year ended December 31, 2017 were authorized for issuance by the WSIB's Board of Directors on April 19, 2018.

Use of estimates and assumptions

The WSIB is required to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates and assumptions have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements. The WSIB has based its estimates and assumptions on information available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the WSIB. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

The most significant estimation processes relate to the assumptions used in measuring benefit liabilities, assessing fair value of certain financial instruments and investment properties, and the determination of employee benefit obligations. Although some variability is inherent in these estimates, management believes that the amounts recorded are appropriate.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can affect the amounts recognized in the consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Notes to Consolidated Financial Statements
December 31, 2017
(millions of Canadian dollars)

Basis of consolidation

(a) Subsidiaries and non-controlling interests

The majority of WSIB's subsidiaries hold investments.

Subsidiaries are entities, including structured entities that are controlled by the WSIB. The WSIB has control when it has the power to direct the relevant activities, has significant exposure to variable returns from these activities, and has the ability to use its power to affect these returns. Power may be determined on the basis of voting rights or based on contractual arrangements in the case of structured entities.

The financial statements of subsidiaries are included in the WSIB's consolidated financial statements from the date control commences until the date control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to reflect accounting policies consistent with those of the WSIB. All intercompany transactions and balances are eliminated.

Non-controlling interest exists when the WSIB directly or indirectly owns less than 100% of the subsidiary and is presented in the consolidated statements of financial position as a separate component, distinct from the unfunded liability attributable to WSIB stakeholders. The excess of revenues over expenses and total comprehensive income attributable to the non-controlling interests are also separately disclosed in the consolidated statements of comprehensive income.

The WSIB Employees' Pension Plan is the non-controlling interest in the majority of the WSIB's subsidiaries. See note 16 for further details.

(b) Investments in joint arrangements and associates

The majority of WSIB's joint arrangements and associates hold investment properties.

WSIB's joint arrangements are investments over which it has joint control and can either be a joint venture or a joint operation. Joint control exists when the strategic, financial, and operating decisions related to the entity's relevant activities require unanimous consent of parties sharing control.

Joint ventures are investments over which the WSIB has joint control and has rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, investments are initially recognized at cost and adjusted for the WSIB's proportionate share of the joint venture's total comprehensive income and dividends received.

Joint operations are economic activities or entities over which the WSIB has joint control and has rights to specific assets and obligations for specific liabilities relating to the arrangement. The WSIB's consolidated financial statements include its share of assets, liabilities, revenues and expenses related to the joint operations.

Associates are those investments over which the WSIB has significant influence over the financial and operating policies but not control or joint control of the entity. Investments in associates are accounted for using the equity method.

WORKPLACE SAFETY AND INSURANCE BOARD

Notes to Consolidated Financial Statements
December 31, 2017
(millions of Canadian dollars)

Foreign currency

The WSIB's functional and presentation currency is the Canadian dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate at the statement of financial position date. Non-monetary assets and liabilities that are measured at fair value are also translated at the exchange rate at the statement of financial position date. Foreign exchange gains and losses are recognized in investment income or administration and other expenses.

Net foreign investments are foreign subsidiaries which hold other invested assets and whose functional currency is not the Canadian dollar. All assets and liabilities of these net foreign investments are translated at exchange rates at the statement of financial position date and all income and expenses are translated using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses on translation are recognized as translation gains (losses) from net foreign investments in other comprehensive income. Upon disposal of a net foreign investment that includes a loss of control, significant influence or joint control, the cumulative translation gain or loss related to that net foreign investment is recognized in income.

Invested assets

(a) Financial instruments

WSIB's invested assets and related liabilities that are financial instruments are comprised of cash and cash equivalents, receivables, public equity securities, fixed income securities, derivative assets and liabilities, other invested assets, payables and long-term debt. Other invested assets are comprised of investment funds, infrastructure related investments, and real estate related investments. Infrastructure related investments include investments in transportation, utilities and energy, and healthcare facilities. Real estate related investments include real estate debentures, funds and properties in Canada and the United States diversified across office, retail, industrial and mixed-use assets. The WSIB records purchases and sales of invested assets that are financial instruments on a trade date basis.

(b) Investment properties

Investment properties are properties held to earn rental income or for capital appreciation, or both. These are initially recognized at cost, including transaction costs, and subsequently remeasured at fair value at each reporting period with changes in fair value recognized as investment income during the period in which they arise. See note 6 for discussion of net investment income related to investment properties and note 7 for movements during the reporting period.

(c) Investments in joint ventures, associates and structured entities

Included in the investment portfolios are the WSIB's investments in joint ventures, associates and structured entities which hold infrastructure and real estate related investments. See note 10 and note 11 for further details.

WORKPLACE SAFETY AND INSURANCE BOARD

Notes to Consolidated Financial Statements
December 31, 2017
(millions of Canadian dollars)

Financial instruments

Financial instruments are contracts that give rise to a financial asset or financial liability when the WSIB becomes a party to the contractual provisions of the instrument. The WSIB's financial instruments are classified as follows:

Financial instrument	Classification
Cash and cash equivalents	FVTPL (a)
Investment receivables	Loans and receivables (b)
Public equity securities	FVTPL (a)
Fixed income securities	FVTPL (a)
Derivative assets and liabilities	FVTPL (a)
Other invested assets	
Investment funds	FVTPL (a)
Infrastructure related investments	FVTPL (a)
Real estate related investments	FVTPL (a)
Investment payables	Other financial liabilities (c)
Long-term debt	Other financial liabilities (c)
Loss of Retirement Income Fund liability	FVTPL (a)

Measurement in subsequent periods depends on the classification of the financial instrument.

(a) Fair value through profit or loss ("FVTPL")

Financial assets and financial liabilities are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivatives. Financial assets and financial liabilities classified as FVTPL are measured at fair value at initial recognition, with changes recognized in investment income.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Loans and receivables are initially measured at fair value plus any transaction costs that are directly attributable to the origination or acquisition of the receivables. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method. Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount on initial recognition.

WORKPLACE SAFETY AND INSURANCE BOARD

Notes to Consolidated Financial Statements
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(millions of Canadian dollars)

(c) Other financial liabilities

Other financial liabilities consist of investment payables and long-term debt which are not derivative liabilities or classified as FVTPL. These are initially measured at fair value plus any transaction costs that are directly attributable to the origination or issuance of the financial liability. Subsequent to initial recognition, other financial liabilities are carried at amortized cost using the effective interest method.

Financial assets are derecognized when the rights to the contractual cash flows expire, when substantially all the risks and rewards of ownership are transferred, or when the WSIB no longer retains control. Financial liabilities are derecognized when the obligation is discharged, cancelled, or expires.

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in a transaction (not a forced liquidation or distress sale) between market participants at the measurement date, that is, an exit value. Refer to note 7 for further details.

The carrying amounts of cash and cash equivalents, public equity securities, fixed income securities, derivative assets and derivative liabilities are their fair values. Due to their short-term nature, the carrying amounts of investment receivables and investment payables approximate their fair values.

Where possible, the fair value of publicly traded financial instruments is based on quoted prices in active markets.

Where quoted prices in active markets are not available for financial instruments such as fixed income securities, the fair value is based on valuation models that use observable market inputs, broker quotes, consensus pricing and the fair value of other similar financial instruments.

The other invested assets include investment funds, infrastructure related investments and real estate related investments. Investment funds are valued on the basis of net asset values provided by investment managers. Infrastructure and real estate related investment funds are valued using acceptable industry valuation methods, including discounted cash flow methods using unobservable inputs such as expected future cash flows, terminal values, and discount rates and market comparable approaches.

The fair value of infrastructure related investments is provided by investment managers who use acceptable industry valuation methods, which incorporate prevailing market rates and may require estimates for economic risks and projected cash flows. Due to the estimation process and the need to use judgment, the aggregate fair value amounts may not be realizable in the settlement of assets or liabilities.

The fair values of real estate related investments and investment properties are based on the periodic valuations performed by independent qualified appraisers using valuation models incorporating available market evidence, including discount and terminal capitalization rates, inflation rates, vacancy rates, and future net cash flows of the properties. When determining the fair value of these investments, estimates and assumptions are made that may have a significant effect on the reported values of these investments.

Investment income

Investment income is comprised of the following:

(a) Financial instruments

Realized gains and losses and changes in unrealized gains and losses on financial instruments are recognized in investment income in the period they arise.

Interest income is recognized in investment income as it accrues. Dividend income is recognized in investment income when the WSIB's right to receive payment has been established.

WORKPLACE SAFETY AND INSURANCE BOARD

Notes to Consolidated Financial Statements
December 31, 2017
(millions of Canadian dollars)

(b) Income from investments in associates and joint ventures

The WSIB's proportionate share of its associates and joint ventures' total comprehensive income is recognized in investment income in the period it is recognized by the associates and joint ventures.

(c) Income from investment properties

Changes in fair value, net rental income, and service charges from investment properties are recognized in investment income in the period to which they relate.

Loss of Retirement Income Fund liability

The Loss of Retirement Income Fund liability represents the WSIB's obligation to provide retirement benefits to eligible injured workers equal to the total contributions plus income earned on those contributions. As such, the Loss of Retirement Income Fund liability is measured at an amount equivalent to the fair value of the assets in the Loss of Retirement Income Fund. At age 65, the injured worker receives a benefit from contributions made to their Loss of Retirement Income account plus any investment income earned.

Assets attributable to the Loss of Retirement Income Fund are included and managed as part of the WSIB's investment portfolio. See note 15 for more information.

The WSIB contributes five percent of the loss of earnings benefits to the Loss of Retirement Income Fund for injured workers of Schedule 1 employers who have received loss of earnings benefits for twelve consecutive months. Schedule 2 employers are required to contribute five percent of the loss of earnings benefits for their workers once loss of earnings benefits are received for twelve continuous months. Workers eligible for loss of retirement income benefits can choose to contribute a further five percent from their loss of earnings benefits. For claims incurred prior to January 1, 1998, the contribution from the WSIB and Schedule 2 employers is 10% of every future economic loss payment made to injured workers.

The WSIB's contributions are recognized as the Loss of Retirement Income Fund contributions expense.

The changes related to the actuarial valuation of the WSIB's future contributions into the Loss of Retirement Income Fund are recognized in benefit liabilities in the consolidated statements of financial position. Refer to the changes in benefit liabilities table in note 18 for further information.

Benefit liabilities and claim costs

Benefit liabilities represent the actuarially determined present value of the estimated future payments for reported and unreported claims incurred on or prior to the reporting date using best estimate assumptions related to workers of Schedule 1 employers. These estimates and assumptions include claim duration, mortality rates, wage and health care escalations, general inflation, and discount rates. In addition, an obligation is estimated for claims in respect of occupational diseases currently recognized by the WSIB for which a claim has not yet been reported. The future payments are for estimated obligations for loss of earnings, labour market re-entry costs, short and long-term disability, health care, survivor benefits, retirement income benefits and claim administration costs. Changes in the estimates and assumptions could have a significant impact on the measurement of benefit liabilities and claim costs.

The benefit liabilities are determined in accordance with the Standards of Practice of the Canadian Institute of Actuaries, including the standards for Public Personal Injury Compensation Plans, and legislation in effect at the end of the reporting period. Changes in the estimate of future claim payments are recognized in claim costs expense.

Benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; these claims are ultimately paid by the self-insured Schedule 2 employers.

WORKPLACE SAFETY AND INSURANCE BOARD

Notes to Consolidated Financial Statements
December 31, 2017
(millions of Canadian dollars)

Claim costs consist of: (i) claim payments to or on behalf of injured workers; (ii) claim administration costs, which represent an estimate of our administration costs necessary to support benefit programs; and (iii) the change in the actuarial valuation of our benefit liabilities, which represents an adjustment to the actuarially determined estimates for future claim costs existing at the dates of the consolidated statements of financial position.

Employee benefit plans

The WSIB sponsors a registered defined benefit pension plan, supplemental defined benefit pension plan, and other benefits. Other benefits include post-retirement benefits for health, dental, vision and life insurance benefits, and other employment benefits for disability income, vacation and attendance programs. Refer to note 16 for more information on these plans.

The cost of employee benefit plans is recognized as the employees provide services to the WSIB. The obligations for these plans are measured as the present value of the employee benefit obligations less the fair value of plan assets and are included in the employee benefit plans liability. The employee benefit plans liability represents the combined deficit of the plans at the reporting date.

The cost of the employee benefit plans is actuarially determined using the projected unit credit method and includes management's estimates and assumptions of compensation increases, health care cost trend rates, mortality, retirement ages of employees, and discount rates. The discount rate used to value the obligations is based on high-quality corporate bonds that have approximately the same term as the obligation. These estimates are reviewed annually with the WSIB's external actuaries. Changes in these estimates could have an impact on the employee benefit plans liability and total comprehensive income.

The changes in the employee benefit obligations and plan assets are recognized when they occur as follows:

(a) Service costs and the net interest cost are recognized in administration and other expenses; and

(b) Remeasurements, actual experience which differs from assumptions which result in actuarial gains or losses, are recognized in other comprehensive income.

Property, equipment and intangible assets

Property, equipment and intangible assets are measured at cost less accumulated depreciation and any accumulated impairment losses. When significant components of an item of property and equipment have different useful lives, they are accounted for as separate items.

Intangible assets include both internally developed and acquired software. Development costs associated with internally developed software are recognized as an intangible asset when certain criteria are met. The criteria to capitalize development costs include the WSIB's intention and ability to complete the development of the software from which it is probable the WSIB will generate future economic benefits.

Depreciation of property and equipment, and amortization of intangible assets are included in administration and other expenses on the consolidated statements of comprehensive income. Property, equipment and intangible assets are depreciated and amortized on a straight-line basis over their estimated useful lives as follows:

Land	Not depreciated
Buildings	
Primary structure	50 - 60 years
Components with different useful lives	10 - 30 years
Leasehold improvements	Lesser of the lease term or 10 years
Office and computer equipment	3 - 5 years
Intangible assets	3 - 8 years

WORKPLACE SAFETY AND INSURANCE BOARD

Notes to Consolidated Financial Statements
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(millions of Canadian dollars)

Impairment

The WSIB evaluates its property, equipment and intangible assets for indicators of impairment such as obsolescence, redundancy, deterioration, loss or reduction in future service potential, or when there is a change in intended use at each reporting period. If there are indicators that an asset may be impaired, an impairment test is performed by comparing the asset's carrying value to its recoverable amount. An impairment charge is recorded to the extent that the recoverable amount is less than its carrying value. If an impairment is later reversed, the carrying amount of the asset is adjusted to the lower of the asset's recoverable amount and the carrying amount that would have been determined (net of depreciation) had there been no prior impairment loss.

Premium revenues

Premium revenues are comprised of premiums from Schedule 1 employers and administration fees from Schedule 2 employers.

(a) Schedule 1 employer premiums

Schedule 1 employers are those for which the WSIB is liable to pay benefit compensation for workers' claims. Schedule 1 employer premiums are assessed and are receivable when employers report their insurable earnings for the current year. For employers who have not reported, premiums are estimated and included in accrued premiums receivable. Premium revenues are recognized over the coverage period.

(b) Schedule 2 employer administration fees

Schedule 2 employers are employers that self-insure the provision of benefits under the WSIA. Schedule 2 employers are liable to pay all benefit compensation and administration costs for their workers' claims.

The WSIB administers the payment of the claims for workers of Schedule 2 employers and recovers the cost of these claims plus administration fees from the employers. The administration fees are recognized as the services are provided. The claims paid on behalf of Schedule 2 employers and the amounts collected to recover the claims paid are not included in the WSIB's revenues or expenses.

Mandatory employer incentive programs

Schedule 1 employers participate in mandatory employer incentive programs that may result in adjustments to premium rates. These programs involve a surcharge to, or refund of, premiums based on the employer's claims experience. The estimated rebates and surcharges are determined based on an actuarial model and are recognized in the period in which they relate.

Legislated obligations and funding commitments

(a) Legislated obligations

The WSIB is required to make payments to defray the cost of administering the *Occupational Health and Safety Act* (the "OHSA") and the regulations made under the OHSA. The WSIB is also required to pay for the operating costs of the Workplace Safety and Insurance Appeals Tribunal ("WSIAT") and the costs that may be incurred by the Office of the Worker Adviser, and the Office of the Employer Adviser. The expenses related to these legislated obligations are recognized as an expense in the period to which the funding relates.

(b) Funding commitments

The WSIB provides grant funding to carry on investigations, research and training. The expenses related to these funding commitments are recognized as an expense in the period to which the funding relates.

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(c) Voluntary employer incentive programs

The WSIB provides financial incentives to Schedule 1 employers who undertake specific measures to improve health and safety. An estimate of the cost of these incentive programs is recognized as an expense in legislated obligations and funding commitments in the period the measures are undertaken by the employer.

Leases

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, where the WSIB is the lessee, are charged to the consolidated statements of comprehensive income over the period of use.

Where the WSIB is the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the consolidated statements of financial position. Income from these leases is recognized in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

3. Changes in Accounting Standards

(a) Standards adopted during the current year

IAS 7 *Statement of Cash Flows* (“IAS 7”)

The WSIB adopted the amendments to IAS 7 effective for annual periods beginning on or after January 1, 2017. The amendments require that companies provide information about changes in their financing liabilities. The adoption of these amendments did not have a significant impact on the WSIB’s consolidated financial statements.

Annual Improvements to IFRSs 2014 - 2016 Cycle

In December 2016, the International Accounting Standards Board (“IASB”) issued *Annual Improvements to IFRSs 2014 – 2016 Cycle*, which includes a minor amendment to IFRS 12 *Disclosure of Interests in Other Entities* (“IFRS 12”) effective January 1, 2017. The amendment provides clarification guidance to the scope of IFRS 12. The adoption of the amendment did not have a significant impact on the WSIB’s consolidated financial statements.

(b) Future changes in accounting standards

The following new or amended accounting standards have been issued by the IASB. These new or amended standards are not yet effective and the WSIB has not completed its assessment of their impact on our consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”)

In May 2014, the IASB issued IFRS 15, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for items such as financial instruments, insurance contracts and leases.

The impact of IFRS 15 will be limited to the WSIB’s revenue from the account and claims management services provided to Schedule 2 employers, one-time gains on disposal of investment properties and property and equipment. The WSIB will adopt the standard on the effective date of January 1, 2018. Based on the nature of the WSIB’s revenues, IFRS 15 is not expected to have a material impact on the WSIB’s consolidated financial statements.

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IFRIC 22 *Foreign Currency Transactions and Advance Consideration* ("IFRIC 22")

In December 2016, the IASB issued IFRIC 22, which clarifies the accounting for transactions when an entity recognizes a non-monetary asset or liability arising from an advance payment that is received or paid in a foreign currency, prior to recognition of the underlying transaction. The amendments will be effective for the WSIB beginning on January 1, 2018 and may be applied retrospectively or prospectively. IFRIC 22 is not expected to have a material impact on the WSIB's consolidated financial statements.

Annual Improvements to IFRSs 2014 - 2016 Cycle

In December 2016, the IASB issued *Annual Improvements to IFRSs 2014 – 2016 Cycle*, which includes a minor amendment to IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") that is effective for annual periods beginning on or after January 1, 2018. The adoption of this amendment is not expected to have a significant impact on the WSIB's consolidated financial statements.

Amendments to *IAS 40 Investment Property* ("IAS 40")

In December 2016, the IASB issued amendments to IAS 40, which clarify that an entity shall transfer property to, or from, an investment property when, and only when, there is evidence of a change in use. The amendments are effective for annual periods beginning on or after January 1, 2018. The adoption of these amendments is not expected to have a significant impact on the WSIB's consolidated financial statements.

IFRS 16 *Leases* ("IFRS 16")

In January 2016, the IASB issued IFRS 16 which will replace IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. For lessees, IFRS 16 requires that all leases be recognized on the statement of financial position, with certain exemptions. The accounting for lessors is substantially unchanged. IFRS 16 will be effective for the WSIB beginning on January 1, 2019 on a retrospective or a modified retrospective basis. The WSIB is currently assessing the impact the adoption of this standard will have on our consolidated financial statements.

Amendments to IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28")

In October 2017, the IASB issued amendments to IAS 28, which clarify that long-term interests in an associate or joint venture to which the equity method is not applied should be accounted for following the requirements of IFRS 9 *Financial Instruments*. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments is not expected to have a significant impact on the WSIB's consolidated financial statements.

Annual Improvements to IFRSs 2015 - 2017 Cycle

In December 2017, the IASB issued *Annual Improvements to IFRSs 2015 – 2017 Cycle*, which includes minor amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*. The amendments are effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments is not expected to have a significant impact on the WSIB's consolidated financial statements.

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IFRS 17 *Insurance Contracts* ("IFRS 17")

In May 2017, the IASB issued IFRS 17, which replaces the guidance in IFRS 4 *Insurance Contracts* and establishes a comprehensive principles-based framework for the recognition, measurement, and presentation of insurance contracts. The WSIB will adopt the standard on the effective date of January 1, 2021. The WSIB is currently assessing the impact of adopting this standard and expects that it will have a significant impact on the WSIB's consolidated financial statements.

IFRS 9 *Financial Instruments* ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9 which will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting.

A new principles-based model is introduced for classifying and measuring financial assets, based on the business model and the contractual cash flow characteristics of the financial assets held. The classification and measurement for financial liabilities remains generally unchanged; however, for a financial liability designated at FVTPL, fair value changes attributable to the changes in an entity's own credit risk are reflected in other comprehensive income.

The standard also introduces a new forward-looking expected loss model which replaces the incurred loss model under IAS 39 for the recognition and measurement of impairment on all financial instruments not measured at fair value. In addition, a new model for hedge accounting was introduced to achieve better alignment with risk management activities.

The WSIB will defer IFRS 9 until January 1, 2021, which is the same effective date as IFRS 17, as allowed under the amendments to IFRS 4. Based on the nature of the WSIB's financial instruments, adoption of IFRS 9 is not expected to have a significant impact on the WSIB's consolidated financial statements as most of the WSIB's financial instruments are measured at fair value.

4. Cash and Cash Equivalents

Highly liquid investments are considered to be cash equivalents. Cash and cash equivalents are comprised of the following:

	2017	**2016**
Cash	850	552
Short-term money market securities	1,736	1,944
Total cash and cash equivalents	**2,586**	**2,496**

5. Receivables and Other Assets

Receivables and other assets are comprised of the following:

	2017	**2016[1]**
Premium receivables	298	264
Accrued premium receivables	493	539
Less: Allowance for doubtful accounts	(118)	(111)
Net premium receivables	**673**	**692**
Investment receivables	244	507
Total receivables	**917**	**1,199**
Other assets[2]	470	445
Total receivables and other assets	**1,387**	**1,644**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.
2. Other assets include employer incentive program surcharges of $416 (2016 – $387) which are expected to be received over a period of more than one year.

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6. Net Investment Income

Net investment income by nature of invested assets for the years ended December 31 is as follows:

	2017	**2016**[3]
Cash and cash equivalents	8	6
Public equity securities	1,880	834
Fixed income securities	73	94
Derivative financial instruments	721	562
Investment properties[1]	42	(4)
Investments in associates and joint ventures	101	60
Other invested assets		
Investment funds	276	206
Infrastructure related investments	126	(13)
Real estate related investments	29	17
Less: Income attributable to Loss of Retirement Income Fund	(164)	(100)
Investment income	**3,092**	**1,662**
Less: Investment expenses[2]	(178)	(158)
Net investment income	**2,914**	**1,504**

1. Investment properties include rental income and service charges of $114 (2016 – $127), partially offset by net losses from decreases in fair values of $15 (2016 – $72), as well as operating expenses of $57 (2016 – $59).
2. Includes $120 of management fees paid to investment managers (2016 – $116).
3. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

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7. Fair Value Measurement and Disclosures

Fair value hierarchy

The WSIB uses a fair value hierarchy to categorize the inputs used in valuation techniques to estimate the fair values of assets and liabilities.

The table below provides a general description of the valuation methods used for fair value measurements.

Hierarchy level	Valuation methods
Level 1	Fair value is based on unadjusted quoted market prices in active markets for identical assets or liabilities that the WSIB has the ability to access at the measurement date.
Level 2	Fair value is based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or model inputs that are either observable or can be corroborated by observable market data for the assets or liabilities.
Level 3	Fair value is measured using significant non-market observable inputs. These include valuations for assets and liabilities that are derived using information, some or all of which are not market observable, as well as assumptions about risk.

Measurements of the fair value of an asset or liability may use multiple inputs that are categorized in different levels of the fair value hierarchy. In these cases, the asset or liability is classified in the hierarchy level of the lowest level input that is significant to the measurement.

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The following table provides the fair value hierarchy classifications for assets and liabilities:

	December 31, 2017				December 31, 2016[3]			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets and liabilities measured at fair value								
Cash and cash equivalents[1]	850	1,736	-	2,586	552	1,944	-	2,496
Public equity securities	13,305	109		13,414	11,293	89	-	11,382
Fixed income securities	-	6,800	-	6,800	-	6,865	-	6,865
Derivative assets	46	296	-	342	36	36	-	72
Investment properties	-	-	1,340	1,340	-	-	1,315	1,315
Other invested assets								
Investment funds	-	-	6,714	6,714	-	-	5,802	5,802
Infrastructure related investments	-	341	399	740	-	267	342	609
Real estate related investments	-	-	456	456	-	-	409	409
Derivative liabilities	(41)	(47)	-	(88)	(33)	(210)	-	(243)
Assets and liabilities for which fair value is disclosed								
Investment receivables[1]	-	244	-	244	-	507	-	507
Administration payables[1]	(304)	-	-	(304)	(275)	-	-	(275)
Investment payables[1]	-	(42)	-	(42)	-	(37)	-	(37)
Long-term debt[2]	-	(123)	-	(123)	-	(142)	-	(142)
Loss of Retirement Income Fund liability (note 15)	(283)	(49)	(1,583)	(1,915)	(261)	(54)	(1,475)	(1,790)

1. Due to their short term nature, the carrying amounts of cash and cash equivalents, investment receivables and administration and investment payables approximate their fair values.
2. Carrying amount as at December 31, 2017 was $115 (December 31, 2016 – $132).
3. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

Transfers between levels within the hierarchy are recognized at the end of the reporting period.

During the years ended December 31, 2017 and December 31, 2016, there were no transfers between Level 1 and Level 2.

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Level 3 fair value measurements

The following tables provide reconciliations of assets included in Level 3 of the fair value hierarchy:

	Other invested assets					
For the year ended December 31, 2017	Investment funds	Infrastructure related investments	Real estate related investments	**Subtotal**	**Investment properties**	**Total**
Balance as at January 1, 2017	5,802	342	409	6,553	1,315	7,868
Net gains (losses) recognized in net investment income	120	27	18	165	(15)	150
Translation losses recognized in other comprehensive income	(51)	(1)	-	(52)	-	(52)
Purchases and additions	1,663	32	29	1,724	-	1,724
Sales or disposals	(820)	(1)	-	(821)	-	(821)
Capital expenditures	-	-	-	-	40	40
Balance as at December 31, 2017	**6,714**	**399**	**456**	**7,569**	**1,340**	**8,909**
Changes in unrealized gains (losses) included in earnings for assets and liabilities for positions still held	**(240)**	**25**	**18**	**(197)**	**(15)**	**(212)**

	Other invested assets					
For the year ended December 31, 2016	Investment funds	Infrastructure related investments	Real estate related investments	**Subtotal**	**Investment properties**	**Total**
Balance as at January 1, 2016	5,322	228	402	5,952	1,361	7,313
Net gains (losses) recognized in net investment income	43	(38)	5	10	(72)	(62)
Purchases and additions	1,345	157	2	1,504	29	1,533
Sales or disposals	(908)	(5)	-	(913)	(39)	(952)
Capital expenditures	-	-	-	-	36	36
Balance as at December 31, 2016[1]	**5,802**	**342**	**409**	**6,553**	**1,315**	**7,868**
Changes in unrealized gains (losses) included in earnings for assets and liabilities for positions still held	**(310)**	**(38)**	**5**	**(343)**	**(72)**	**(415)**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

The reconciliation for the Loss of Retirement Income Fund liability can be found in note 15.

During the years ended December 31, 2017 and December 31, 2016, there were no transfers between Level 2 and Level 3.

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The following table summarizes the valuation methods and quantitative information about the significant unobservable inputs used in Level 3 financial instruments:

	Valuation methods	Key unobservable inputs	2017 Range of inputs		2016 Range of inputs	
			Low	High	Low	High
Investment funds	Net asset value	Net asset value	n/a	n/a	n/a	n/a
Infrastructure related investments	Discounted cash flow and market comparable	Discount rate and expected future cash flows	n/a	n/a	n/a	n/a
Real estate related investments and investment properties	Discounted cash flow and market comparable	Discount rate	5.0%	8.0%	5.0%	8.3%
		Terminal capitalization rate	4.3%	7.0%	4.3%	7.5%
Loss of Retirement Income Fund liability	Net asset value	Net asset value	n/a	n/a	n/a	n/a

Sensitivity of Level 3 financial instruments

Fair values of investment funds are based on net asset values provided by investment managers.

Fair values of infrastructure related investments are based on valuations obtained from investment managers. The WSIB assesses the reasonableness of these fair values based on periodic appraisals performed by independent qualified appraisers. The valuations of infrastructure related investments obtained from investment managers are based on comparable transactions in the market and discounted cash flow models using unobservable inputs such as discount rates, terminal values and expected future cash flows. Holding other factors constant, an increase to terminal values or expected future cash flows would tend to increase the fair value, while an increase in the discount rate would have the opposite effect.

Fair values of real estate related investments and investment properties are obtained from qualified appraisers who apply a discounted cash flow model to determine property values. Key unobservable inputs include discount and terminal capitalization rates, projected rental income and expenses, inflation rates and vacancy rates. Holding other factors constant, an increase to projected rental income would increase the fair values, while an increase in the inputs for the discount rates and terminal capitalization rates would have the opposite effect.

Fair values of the Loss of Retirement Income Fund liability are based on the fair values of the assets in the Loss of Retirement Income Fund.

We have not applied another reasonably possible alternative assumption to the significant Level 3 categories as the net asset values and appraised fair values are provided by the investment managers and other third party appraisers.

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8. Transferred Financial Assets Not Derecognized

The WSIB participates in a securities lending program through an intermediary for the purpose of generating fee income. Non-cash collateral, the fair value of which represents at least 102% of the fair value of the loaned securities, is maintained until the underlying securities have been returned to the WSIB. The fair value of the loaned securities is monitored on a daily basis by an intermediary financial institution with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates. The intermediary indemnifies the WSIB against any shortfalls in collateral in the event of default by the counterparty. These transactions are conducted under terms that are usual and customary to security lending activities, as well as requirements determined by exchanges where a financial institution acts as an intermediary.

Under the terms of the securities lending program, the WSIB retains substantially all the risks and rewards of ownership of the loaned securities and also retains contractual rights to the cash flows. These securities are not derecognized from the consolidated statements of financial position.

As at December 31, 2017, the fair value of investments loaned under the securities lending program was $4,314 (2016 – $3,862) and the fair value of securities maintained as collateral was approximately $4,659 (2016 – $4,179).

9. Derivative Financial Instruments

Derivatives are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, other financial instruments, commodity prices or indices. The WSIB uses foreign exchange forward contracts to hedge investments denominated in a foreign currency, and for active trading. Equity index, fixed income and commodity futures are held to provide international and asset class diversification.

Foreign exchange forward contracts and futures agreements are contractual obligations to buy or sell a financial instrument, foreign currency or other underlying commodity on a predetermined future date at a specific price. Foreign exchange forward contracts are over the counter contracts that are negotiated between the WSIB and the counterparty, whereas futures are contracts that are traded on a regulated exchange with standard amounts and settlement dates.

Some derivatives are collateralized with cash and treasury bills. As at December 31, 2017, the fair value of the securities maintained as collateral was approximately $148 (2016 – $355).

The foreign exchange derivative assets and derivative liabilities are subject to netting arrangements and in practice are settled on a net basis. However, these do not meet the criteria to be presented on a net basis. As such, the derivative assets and derivative liabilities are presented separately in the consolidated statements of financial position.

The WSIB does not designate any of the derivatives in a qualifying hedge accounting relationship but uses derivatives for economic hedging purposes. The notional amounts in the table below are not recorded as assets or liabilities in our consolidated financial statements as they represent the reference amounts to which a rate or a price is applied to determine the amount of cash flows to be exchanged. Notional amounts do not represent the potential gains or losses associated with market risks and are not indicative of the credit risks associated with derivative financial instruments.

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The notional amounts and the fair values of the derivative assets and derivative liabilities as at December 31 are as follows:

	2017			2016		
		Fair value			Fair value	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Forward exchange contracts	14,584	288	36	10,463	31	193
Fixed income futures	3,266	2	19	2,270	10	4
Commodity futures	949	26	16	628	16	24
Equity index futures	1,410	18	6	846	10	5
Options	23	4	11	22	4	9
Swaps	680	4	-	546	1	8
Total	**20,912**	**342**	**88**	**14,775**	**72**	**243**

10. Joint Arrangements and Associates

Acquisition of Vancouver properties

On February 1, 2017, the WSIB and a third party jointly purchased a 50% interest in a portfolio of retail and office properties in downtown Vancouver (the “Vancouver properties”). The WSIB accounts for this investment using the equity method of accounting and holds it for investment purposes to earn rental income and capital appreciation.

Summarized financial information of the Vancouver properties, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements as at December 31, 2017 are set out below:

	2017
Current assets	17
Non-current assets	1,996
Current liabilities	(31)
Non-current liabilities	-
Net assets	**1,982**
WSIB’s share of net assets	**991**

The above amounts of assets and liabilities include the following:

	2017
Cash and cash equivalents	2
Current financial liabilities (excluding trade and other payables)	(3)
Non-current financial liabilities (excluding trade and other payables)	-

Summarized below is the statement of comprehensive income of the Vancouver properties:

	2017
Income	122
Gains from increases in fair values	63
Expenses	(47)
Total comprehensive income	**138**
WSIB’s share of total comprehensive income	**69**

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The Vancouver properties have no contingent liabilities or capital commitments as at December 31, 2017. During 2017, the WSIB received dividends from the Vancouver properties of $36.

Investments in other joint arrangements and associates

The following table summarizes the carrying value of the WSIB's interests in other joint arrangements and associates that are not individually material as well as the WSIB's share of income of those entities.

	Associates		Joint ventures		Joint operations	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
WSIB's share of net assets	**19**	**21**	**631**	**560**	**321**	**300**
WSIB's share of:						
Net income (loss)	-	1	32	59	(9)	(15)
Other comprehensive income	-	-	2	-	-	-

11. Interests in Structured Entities

A structured entity is an entity that is designed whereby voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created with a narrow and well-defined objective with relevant activities being directed by means of contractual arrangements. The WSIB has an interest in a structured entity when there is a contractual or non-contractual involvement that exposes the WSIB to variable returns from the structured entity. The WSIB consolidates a structured entity when the WSIB controls the entity in accordance with the accounting policy described in note 2. The WSIB's consolidated structured entities are predominantly real estate and infrastructure related investments in the investment portfolios where the WSIB has substantive rights related to the termination of investment managers.

Unconsolidated structured entities

The WSIB holds interests in third party structured entities, predominantly in the form of direct investments in securities or partnership interests. The WSIB does not consolidate these structured entities as its involvement is limited to investment holdings and does not have power over the key economic decisions of these entities. These investments in structured entities are recognized in other invested assets and interest and dividend income received are recognized in net investment income.

The following table summarizes our investments and maximum exposure to loss related to our interests in unconsolidated structured entities:

	WSIB investment		WSIB maximum exposure to loss[1]	
	2017	**2016**	**2017**	**2016**
Real estate	1,449	443	1,449	443
Infrastructure	192	138	192	138
Total	**1,641**	**581**	**1,641**	**581**

1. The WSIB's maximum exposure to loss is limited to amounts invested.

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12. Risk Management

The WSIB is exposed to a number of risks and uncertainties related to its financial instruments and benefit liabilities. These risks and the WSIB's risk mitigation policies and techniques are disclosed in Section 15 – Risk Factors of the Management's Discussion and Analysis. Only the shaded text and tables form an integral part of these consolidated financial statements.

Investment risk

The Board of Directors of the WSIB has established Statements of Investment Policies and Procedures ("SIPPs"), which establish the policies governing the WSIB's investment portfolio. The SIPPs require that the WSIB's investment portfolio be diversified across certain asset classes and is currently diversified among six primary investment strategies.

Liquidity risk

As at December 31, 2017, 59.3% (2016 – 62.1%) of the WSIB's investment portfolio was invested in readily marketable fixed income securities and publicly traded equities.

The following tables provide the carrying values of all financial instruments by contractual maturity or expected cash flow:

	Within 1 year	2 - 5 years	6 - 10 years	Over 10 years	No fixed maturity	2017
Cash and cash equivalents	2,586	-	-	-	-	**2,586**
Investment receivables	244	-	-	-	-	**244**
Public equity securities	-	-	-	-	13,414	**13,414**
Fixed income securities	-	5,316	566	849	69	**6,800**
Derivative assets	342	-	-	-	-	**342**
Other invested assets						
Investment funds	-	-	-	-	6,714	**6,714**
Infrastructure related investments	-	-	-	-	740	**740**
Real estate related investments	-	-	-	-	456	**456**
Investment payables	(42)	-	-	-	-	**(42)**
Administration payables	(304)	-	-	-	-	**(304)**
Derivative liabilities	(88)	-	-	-	-	**(88)**
Long-term debt	-	(5)	(83)	(27)	-	**(115)**
Loss of Retirement Income Fund liability	(263)	-	-	-	(1,652)	**(1,915)**

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	Within 1 year	2 - 5 years	6 - 10 years	Over 10 years	No fixed maturity	2016
Cash and cash equivalents	2,496	-	-	-	-	**2,496**
Investment receivables	507	-	-	-	-	**507**
Public equity securities	-	-	-	-	11,382	**11,382**
Fixed income securities	28	2,959	1,620	2,186	72	**6,865**
Derivative assets	72	-	-	-	-	**72**
Other invested assets						
Investment funds	-	-	-	-	5,802	**5,802**
Infrastructure related investments	-	-	-	-	609	**609**
Real estate related investments	-	-	-	-	409	**409**
Investment payables	(37)	-	-	-	-	**(37)**
Administration payables	(275)	-	-	-	-	**(275)**
Derivative liabilities	(243)	-	-	-	-	**(243)**
Long-term debt	-	(21)	(78)	(33)	-	**(132)**
Loss of Retirement Income Fund liability	(243)	-	-	-	(1,547)	**(1,790)**

The WSIB maintains and uses a $150 unsecured line of credit with a commercial bank for general operating purposes. Although the line of credit was occasionally used in 2017, as at December 31, 2017, there were no outstanding borrowings (2016 - $nil).

Credit risk

(a) Fixed income securities

The WSIB's fixed income securities consist primarily of high quality, investment grade debt instruments. An investment grade debt instrument is one that is rated BBB and above. The WSIB manages its credit risk through diversification as set out in the fixed income indices that these passive investments replicate.

The following table provides information regarding the credit rating of the WSIB's fixed income securities:

	2017		2016	
AAA	3,434	50.5%	2,815	41.0%
AA	1,386	20.4%	886	12.9%
A	1,874	27.6%	2,889	42.1%
BBB	37	0.5%	203	3.0%
Not rated	69	1.0%	72	1.0%
Total fixed income securities	**6,800**	**100.0%**	**6,865**	**100.0%**

Credit risk associated with fixed income securities also includes concentration risk. Concentration risk arises from the exposure of investments from one particular issuer, a group of issuers, a geographic region, or an industry sector. These groups share similar characteristics such as type of industry, regulatory compliance, and economic and political conditions, which may impact the issuers' ability to meet their contractual commitments.

The WSIB manages concentration risk through limits on exposure to issuers, regions and industry sectors. Through these limits, not more than five percent of the fair value of the investment portfolio is invested in the securities of a single non-government issuer.

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The following table provides information regarding the concentration of fixed income securities:

	2017		2016[1]	
Federal government and agencies	3,295	48.4%	2,453	35.7%
Provincial and municipal	2,661	39.1%	3,390	49.4%
Financial services	626	9.2%	393	5.7%
Utilities and telecommunications	101	1.5%	237	3.4%
Asset-backed securities	57	0.8%	5	0.1%
Other corporate	31	0.5%	212	3.1%
Consumer products and merchandising	19	0.3%	23	0.3%
Natural resources	6	0.1%	87	1.3%
Real estate	4	0.1%	56	0.8%
Communications and publishing	-	-%	6	0.1%
Industrial products	-	-%	3	0.1%
Total fixed income securities	**6,800**	**100.0%**	**6,865**	**100.0%**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

(b) Securities lending program

Counterparty risk relating to the securities lending program, as further described in note 8, is managed by an intermediary financial institution in accordance with a written agreement, investment policy and procedures on securities lending. Non-cash collateral is comprised primarily of equities, government bonds, and major bank short-term notes. Note 8 of the consolidated financial statements provides the fair value of investments loaned under the securities lending program.

(c) Receivables from Schedule 1 and Schedule 2 employers

Credit risk associated with premium receivables related to Schedule 1 employers is mitigated through risk management policies and procedures which include close monitoring of premium payment status and follow up measures with the employer. An allowance for doubtful accounts is established when a premium receivable becomes impaired.

Credit risk related to receivables from Schedule 2 employers is mitigated by holding collateral in the form of letters of credit and surety bonds. At December 31, 2017, the WSIB held collateral in the total amount of $259 (2016 – $276) with Schedule 2 employers.

Market risk

(a) Currency risk

The WSIB is exposed to a number of foreign currencies in its investment portfolio. The WSIB also uses foreign exchange contracts as an additional source of return, for economic hedging strategies to manage investment risk, to improve liquidity, or to manage exposure to asset classes or strategies.

The WSIB has an investment currency hedging policy which is reviewed and approved at least annually by the Investment Committee. The investment currency hedging policy provides guidelines on currency exposures to be hedged, permitted hedging instruments, hedge adjustments and other currency hedging controls and processes. To manage the currency risk, the WSIB regularly monitors the currency exposure in compliance with the currency hedging policy.

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The following provides a sensitivity analysis of the effect of a one percent increase or decrease in the Canadian dollar compared to the foreign currencies that represent 81.7% (2016 – 85.1%) of the WSIB's foreign currency exposure in its investment portfolio:

	2017		2016	
	Net exposure	Effect of 1% change	Net exposure	Effect of 1% change
United States dollar	4,354	44	4,937	49
Euro	624	6	617	6
Hong Kong dollar	482	5	292	3
Japanese yen	355	4	247	3
South Korean won	338	3	163	2
British Pound sterling	280	3	167	2
Foreign currency exposure	**6,433**	**65**	**6,423**	**65**

(b) Interest rate risk

The WSIB uses effective duration to measure the sensitivity of the fair value of fixed income securities to a change in interest rates. Parallel shifts in the yield curve of one percent, with all other variables held constant, would result in an increase or decrease in the fair value of fixed income securities of approximately $386 (2016 – $532). This information is based on the assumption that the fixed income securities are not impaired and interest rates and equity prices move independently.

(c) Price risk

The WSIB is exposed to price risk through its investments in public equity securities. The WSIB's price risk mitigation strategies are discussed in Section 15 – Risk Factors of the Management's Discussion and Analysis.

The estimated effect on the fair value of public equity securities resulting from a 10% change in market prices, holding all other factors constant, is $1,341 (2016 – $1,138).

Insurance funding risk – benefit liabilities

The WSIB is exposed to the risk that the actual obligations for claim payments exceed its estimate of benefit liabilities. Benefit liabilities are influenced by factors such as the discount rate used to value future claims, expected inflation, availability, utilization and cost of health care services, injury severity and duration, availability of return-to-work programs and re-employment opportunities at pre-injury employers, wage growth, new medical findings that affect the recognition of occupational diseases, legislated changes to benefit rates or modification of the recognition of workplace injuries, which are sometimes applied retroactively, and precedents established through various claims appeals processes.

The WSIB mitigates these risks by utilizing both proprietary and commercially available actuarial models and assessing historical loss development patterns and other predictive analytics. These risks are also mitigated by engaging independent actuaries annually to review actuarial assumptions and methodologies in establishing benefit liabilities, as well as reviewing actuarial related matters at regular meetings with our Actuarial Advisory Committee.

Note 18 provides further information regarding the nature of benefit liabilities.

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13. Property, Equipment and Intangible Assets

	Property and Equipment				Intangible Assets		
	Land	Buildings	Leasehold improvements	Office and computer equipment	Internally developed software	Acquired software	Total
Cost							
Balance as at December 31, 2015	40	102	71	22	234	9	478
Additions	-	-	2	1	48	3	54
Balance as at December 31, 2016	40	102	73	23	282	12	532
Additions	-	-	1	-	14	5	20
Adjustments[1]	-	-	(55)	-	(60)	(9)	(124)
Balance as at December 31, 2017	**40**	**102**	**19**	**23**	**236**	**8**	**428**
Accumulated depreciation and amortization							
Balance as at December 31, 2015	-	25	68	21	72	8	194
Depreciation and amortization	-	3	1	1	16	1	22
Balance as at December 31, 2016	-	28	69	22	88	9	216
Depreciation and amortization	-	4	1	-	27	2	34
Adjustments[1]	-	-	(55)	-	(60)	(9)	(124)
Balance as at December 31, 2017	**-**	**32**	**15**	**22**	**55**	**2**	**126**
Carrying amounts							
At December 31, 2016	**40**	**74**	**4**	**1**	**194**	**3**	**316**
At December 31, 2017	**40**	**70**	**4**	**1**	**181**	**6**	**302**

1. Adjustments related to fully depreciated leasehold improvements and intangible assets.

The carrying amount for internally developed software as at December 31, 2017 includes $10 of costs (2016 – $97) for software that was not yet available for use and therefore was not yet subject to amortization.

The WSIB has determined that there is no impairment of property, equipment and intangible assets in 2017.

14. Payables and Other Liabilities

	2017	2016
Administration payables	304	275
Investment payables	42	37
Other liabilities	839	800
Total payables and other liabilities	**1,185**	**1,112**

Payables are expected to be paid within 12 months from the reporting date. Other liabilities include experience rating refunds of $810 (2016 – $769) which are expected to be paid over five years.

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15. Loss of Retirement Income Fund Liability

The reconciliation of carrying amounts for the Loss of Retirement Income Fund liability is set forth below:

	2017	2016
Balance at beginning of year	1,790	1,724
Contributions from the WSIB	56	56
Optional contributions from injured workers	7	7
Contributions from Schedule 2 employers	5	4
Income earned on contributions	162	99
Benefits paid in cash	(105)	(100)
Balance at end of year	**1,915**	**1,790**

The following provides a summary of the assets by asset category included in the Loss of Retirement Income Fund:

	2017		2016[1]	
Cash and cash equivalents	369	19.3%	335	18.7%
Public equity securities	641	33.5%	590	32.9%
Fixed income securities	390	20.4%	424	23.7%
Derivative financial instruments	12	0.6%	(9)	(0.5)%
Investment properties	64	3.3%	69	3.8%
Investments in associates and joint ventures	69	3.6%	19	1.1%
Other invested assets				
Investment funds	324	16.9%	302	16.9%
Infrastructure related investments	35	1.8%	32	1.8%
Real estate related investments	21	1.1%	21	1.2%
Other	(10)	(0.5)%	7	0.4%
Total Loss of Retirement Income Fund assets	**1,915**	**100.0%**	**1,790**	**100.0%**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

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16. Employee Benefit Plans

The WSIB sponsors defined benefit pension plans and other benefits for WSIB employees.

Pension plans

(a) Employees' Pension Plan

The Employees' Pension Plan provides for partially indexed pensions based on years of service and final years' average earnings. The Employees' Pension Plan is a registered pension plan under the *Ontario Pension Benefits Act* ("PBA") and the Canada Revenue Agency.

The Employees' Pension Plan is open to new entrants, and employees pay contributions based on a fixed formula (as a percentage of salary), with the WSIB responsible for the balance of the cost. The WSIB's general practice is to contribute the minimum required under the PBA, but additional contributions may be made for tactical purposes, such as to meet a particular funding threshold.

The WSIB is participating in the Broader Public Sector Temporary Solvency Relief Program as published in Regulation 178/11 under the PBA, amended by Regulation 350/16. The temporary solvency relief provisions allow the WSIB to make solvency special payments on an interest only basis until December 31, 2018. As part of that program, the WSIB is taking strides to convert the plan into a jointly sponsored pension plan.

(b) The Employees' Supplementary Pension Plan

The Employees' Supplementary Pension Plan ("ESPP") has generally the same plan provisions as the Employees' Pension Plan, except that it provides for benefits that are earned above the maximum pension benefits permitted under the Income Tax Act (Canada). The ESPP is registered with the Canada Revenue Agency as a Retirement Compensation Arrangement. The WSIB matches employee contributions to the ESPP and contributes additional amounts when required.

Other benefits

(a) The Post-Retirement Benefit Plan

The Post-Retirement Benefit Plan provides extended health, dental, vision, and life insurance benefits for employees who meet the eligibility requirements. Employees must be entitled to a WSIB pension and meet a service requirement to qualify for benefits. The plan is funded on a pay as you go basis.

(b) Other employment benefits

Other employment benefits include vacation and attendance credits which are payable upon termination of employment, and disability benefits payable up to age 65.

Governance of the plans

The Board of Directors of the WSIB oversees the administration of the employee benefit plans in accordance with applicable legislation and approves the governance structure, including the mandates of those to whom administrative duties and responsibilities were delegated. The Board of Directors approves actuarial valuation reports and establishes employer contributions, approves audited plan financial statements, appoints and terminates key service providers and monitors plan funded status and regulatory, legislative and governance compliance.

The Board of Directors receives assistance in the fulfilment of its responsibilities related to the employee benefit plans through various committees, including the Audit and Finance Committee, the Human Resources and Compensation Committee, the Investment Committee, and the Pension Management Committee.

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Risks

Given that employee contributions to the employee benefit plans (if any) are fixed, the WSIB generally bears the risks associated with the employee benefit plans. The most significant sources of risk for the WSIB include:

a) A decline in discount rates that increases the obligation and expense;

b) Investment returns which are lower than expected;

c) Lower than expected rates of mortality; and

d) Health care cost inflation being higher than assumed.

In general, the WSIB manages the risks through plan design reviews and, in relation to investment risks, through risk control mechanisms in the pension plan's Statement of Investment Policies and Procedures ("SIPP"). The SIPP requires that the plan assets be diversified across certain asset classes and investment strategies. Measurement, assessment and management of risk are conducted using tools and analysis, including asset-liability studies, measures of standard deviation and tracking error, and sensitivity analysis. Other risks, such as operational risks, are managed through internal controls or other risk control mechanisms.

Employee benefit plans expense

The cost of the employee benefit plans recognized in administration and other expenses is as follows:

	Pension plans		Other benefits		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Current service cost	90	85	19	17	109	102
Net interest on the employee benefit plans liability	24	22	29	30	53	52
Plan amendments	-	-	2	(7)	2	(7)
Long-term employee benefit gains	-	-	(6)	(4)	(6)	(4)
Employee benefit plans expense	**114**	**107**	**44**	**36**	**158**	**143**

Amounts recognized in other comprehensive loss (income) are as follows:

	Pension plans		Other benefits		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Actuarial losses (gains) arising from:						
Financial assumptions	319	86	28	(1)	347	85
Demographic assumptions	79	-	23	-	102	-
Plan experience	15	9	6	6	21	15
Return in excess of interest income on plan assets	(197)	(65)	-	-	(197)	(65)
Remeasurements of employee benefit plans	**216**	**30**	**57**	**5**	**273**	**35**

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Employee benefit plans liability

The employee benefit plans liability as at December 31 is comprised of the following:

	Pension plans		Other benefits		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Present value of obligations[1]	4,029	3,481	819	746	4,848	4,227
Fair value of plan assets	(3,237)	(2,937)	-	-	(3,237)	(2,937)
Employee benefit plans liability	**792**	**544**	**819**	**746**	**1,611**	**1,290**

1. WSIB's pension plans are wholly or partly funded whereas WSIB's other benefits are wholly unfunded.

The movement in the total present value of employee benefit obligations is as follows:

	Pension plans		Other benefits		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Balance, beginning of year	3,481	3,247	746	732	4,227	3,979
Current service cost	90	85	19	17	109	102
Employee contributions	29	33	-	-	29	33
Interest expense on the employee benefit obligations	138	133	29	30	167	163
Plan amendments	-	-	2	(7)	2	(7)
Actuarial losses (gains) arising from:						
Financial assumptions	319	86	28	(2)	347	84
Demographic assumptions	79	-	23	-	102	-
Plan experience	15	9	-	3	15	12
Benefits paid	(122)	(112)	(28)	(27)	(150)	(139)
Balance, end of year	**4,029**	**3,481**	**819**	**746**	**4,848**	**4,227**

As at December 31, 2017, the Employees' Pension Plan was 98.9% of the pension plans obligation (2016 – 98.9%), and the Post-Retirement Benefit plan was 85.5% of the other benefits obligation (2016 – 83.0%).

The weighted average duration of the defined benefit pension plans and the other benefit plans as at December 31, 2017 is 17.3 and 18.5 years, respectively (2016 – 16.9 and 17.7 years, respectively).

Fair value of plan assets

The movement in the total fair value of plan assets is as follows:

	Pension plans		Other benefits		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Balance, beginning of year	2,937	2,757	-	-	2,937	2,757
Interest income on plan assets	114	111	-	-	114	111
Return in excess of interest income on plan assets	197	65	-	-	197	65
Employer contributions	82	83	28	27	110	110
Employee contributions	29	33	-	-	29	33
Benefits paid	(122)	(112)	(28)	(27)	(150)	(139)
Balance, end of year	**3,237**	**2,937**	**-**	**-**	**3,237**	**2,937**

Employer's contributions to the pension plans are estimated to be $85 for 2018.

Benefits to be paid from pension plan assets, during 2018, are projected to be $131, and other benefits to be paid directly by the Employer are estimated to be $32.

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Plans Assets as at December 31 are comprised of the following:

	2017		2016[1]	
Plan Assets				
Public equities	1,247	39%	1,115	38%
Fixed income	587	18%	674	23%
Absolute return	332	10%	313	11%
Diversified markets	425	13%	330	11%
Real estate	333	10%	229	8%
Infrastructure	247	8%	197	7%
Cash and cash equivalents	59	2%	78	2%
Other	7	-%	1	-%
Total[2]	**3,237**	**100%**	**2,937**	**100%**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.
2. Includes $2.3 net assets of the Employees' Supplementary Pension Plan (2016 – $2.2).

Actuarial assumptions

The significant actuarial assumptions used in the determination of the present value of the employee benefit obligations are as follows:

	2017	2016
Discount rate[1]		
Benefit plan expense	3.90%	4.05%
Accrued benefit obligation at end of year	3.45%	3.90%
Rate of pension increase at end of year[2]	1.31%	1.31%
Rate of compensation increase at end of year[3]	3.50%	3.25%
Health care trends at end of year		
Initial trend rate	5.75%	6.00%
Ultimate trend rate	4.50%	4.50%
Year ultimate trend rate is reached	2023	2023
Dental care trend rate at end of year	4.00%	4.00%

1. Weighted average based on obligation.
2. Pension benefits are increased annually, every January 1, equal to 75% of the Consumer Price Index (i.e. inflation).
3. This is an approximation. Actual assumption is based on inflation of 1.75% per annum plus a unisex real pay merit scale.

The 2017 and 2016 assumptions for mortality rates are based on 104% of the 2014 Canadian Pensioners' Private Sector Mortality Table. The 2017 mortality rates were generationally projected by Scale MI – 2017, modified to have an ultimate rate of 0.8% (2016 – Scale CPM-B with no modification). The current longevities underlying the measurement of the employee benefit obligations as at December 31 are as follows:

	2017	2016
Longevity for those currently age 65		
Males	21.4 years	21.4 years
Females	23.9 years	23.8 years
Longevity at age 65 for those currently age 45		
Males	22.6 years	22.4 years
Females	25.0 years	24.8 years

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Sensitivity of the actuarial assumptions

Changes in the actuarial assumptions used have a significant effect on the employee benefit plans obligation. The sensitivity analysis below provides an estimate of the potential impact of changes in key assumptions as at December 31, 2017, with all other assumptions held constant:

	Increase (decrease) in the obligations		
Sensitivity in assumptions	**Pension plans**	**Other benefits**	**Total**
Discount rate			
1% increase in discount rate	(606)	(130)	**(736)**
1% decrease in discount rate	789	173	**962**
Rate of compensation increase			
1% increase in compensation rate	133	6	**139**
1% decrease in compensation rate	(118)	(5)	**(123)**
Rate of pension increase			
1% increase in pension benefits	421	n/a	**421**
1% decrease in pension benefits	(362)	n/a	**(362)**
Health and dental care trend rates			
1% increase in trend rates	n/a	155	**155**
1% decrease in trend rates	n/a	(118)	**(118)**
Mortality rates			
10% increase in mortality rates[1]	(81)	(20)	**(101)**
10% decrease in mortality rates[2]	89	23	**112**

1. The increase in the mortality rates result in a decrease of the average life expectancy of a female aged 65 years by 0.7 years.
2. The decrease in the mortality rates result in an increase of the average life expectancy of a female aged 65 years by 0.8 years.

17. Premium Revenues

A summary of premiums for the years ended December 31 is as follows:

	2017	**2016[1]**
Gross Schedule 1 premiums	4,780	4,908
Bad debts	(43)	(55)
Interest and penalties	64	58
Other income	-	5
Schedule 1 employer premiums	**4,801**	**4,916**
Schedule 2 employer administration fees	78	73
Premiums	**4,879**	**4,989**
Net mandatory employer incentive programs	(100)	(181)
Net premiums	**4,779**	**4,808**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

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18. Benefit Liabilities and Claim Costs

Benefit liabilities

Benefit liabilities are based on the level and nature of entitlement under the WSIA and adjudication practices in effect at that date.

Benefit liabilities are comprised of the following:

	2017	**2016**[1]
Loss of earnings	9,037	8,534
Workers' pensions	6,124	6,462
Health care	4,285	4,090
Survivor benefits	3,015	2,947
Future economic loss	1,120	1,292
External providers	106	136
Non-economic loss	289	284
Long latency occupational diseases	2,492	2,321
Claim administration costs	1,257	1,299
Loss of Retirement Income	565	555
Benefit liabilities	**28,290**	**27,920**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

Further details of the changes in benefit liabilities are as follows:

	Benefit liabilities, beginning of year	Claim costs recognized during the year[1]	Payments processed during the year[2]	Interest expense on the liability	Impact of legislative change[1]	Impact of actuarial remeasure-ment	Changes in claims experience	**Benefit liabilities, end of year**
Loss of earnings	8,534	879	(929)	374	333	38	(192)	**9,037**
Workers' pensions	6,462	-	(526)	278	-	(24)	(66)	**6,124**
Health care	4,090	506	(455)	178	108	-	(142)	**4,285**
Survivor benefits	2,947	108	(194)	138	-	(36)	52	**3,015**
Future economic loss	1,292	-	(189)	55	-	(1)	(37)	**1,120**
External providers	136	32	(24)	4	4	-	(46)	**106**
Non-economic loss	284	38	(43)	14	9	(4)	(9)	**289**
Long latency occupational diseases	2,321	-	-	105	-	160	(94)	**2,492**
Claim administration costs	1,299	404	(417)	53	-	-	(82)	**1,257**
Loss of Retirement Income	555	40	(56)	25	17	(2)	(14)	**565**
Total for 2017	**27,920**	**2,007**	**(2,833)**	**1,224**	**471**	**131**	**(630)**	**28,290**

1. On December 14, 2017, passage of Bill 177 titled, *Stronger, Fairer Ontario Act (Budget Measures), 2017* amended section 13 of the WSIA to provide Chronic Mental Stress ("CMS") benefits for diagnoses on or after April 29, 2014 and before January 1, 2018. The total impact of CMS amounts to $647, of which $176 relates to the current injury year and is included in claim costs recognized during the year. $471 relates to prior injury years and is included in impact of legislative change.
2. Payments processed during the year relate to prior and current injury years.

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	Benefit liabilities, beginning of year	Claim costs recognized during the year	Payments processed during the year[1]	Interest expense on the liability	Impact of legislative change[2]	Impact of actuarial remeasure-ment	Changes in claims experience	**Benefit liabilities, end of year[2]**
Loss of earnings	8,662	664	(854)	398	26	24	(386)	**8,534**
Workers' pensions	6,587	-	(542)	295	-	149	(27)	**6,462**
Health care	3,938	465	(395)	173	8	98	(197)	**4,090**
Survivor benefits	2,860	102	(187)	131	-	84	(43)	**2,947**
Future economic loss	1,362	-	(205)	62	-	64	9	**1,292**
External providers	184	38	(29)	6	-	-	(63)	**136**
Non-economic loss	291	36	(40)	8	1	6	(18)	**284**
Long latency occupational diseases	2,137	-	-	101	-	112	(29)	**2,321**
Claim administration costs	1,235	408	(405)	56	-	21	(16)	**1,299**
Loss of Retirement Income	574	30	(56)	23	-	4	(20)	**555**
Total for 2016	**27,830**	**1,743**	**(2,713)**	**1,253**	**35**	**562**	**(790)**	**27,920**

1. Payments processed during the year relate to prior and current injury years.
2. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

Claim payments

Claim payments represent cash paid during the year to or on behalf of injured workers excluding claim administration costs and the Loss of Retirement Income. Claim payments are comprised of the following:

	2017	**2016[1]**
Loss of earnings	929	854
Workers' pensions	526	542
Health care	455	395
Survivor benefits	194	187
Future economic loss	189	205
External providers	24	29
Non-economic loss	43	40
Total claim payments	**2,360**	**2,252**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

Claim administration costs

Claim administration costs are comprised of the following:

	2017	**2016**
Allocation from administration and other expenses	391	382
Allocation from legislated obligations and funding commitments expenses	26	23
Total claim administration costs	**417**	**405**

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Change in actuarial valuation of benefit liabilities

The change in actuarial valuation of benefit liabilities is comprised of the following:

	2017	2016
Changes in estimate of cost of claims[1]	(1,456)	(1,760)
Changes in actuarial assumptions and methods	131	562
Changes in legislation[1, 2]	471	35
Accretion[3]	1,224	1,253
Total changes in actuarial valuation of benefit liabilities	**370**	**90**

1. The total impact of Chronic Mental Stress ("CMS") amounts to $647, of which $176 relates to the current injury year and is included in changes in estimate of cost of claims. The remaining $471 relates to prior injury years and is included in changes in legislation.
2. Impact of legislative amendment includes an increase of $35 relating to Posttraumatic stress disorder ("PTSD"). On April 5, 2016, Bill 163, *Supporting Ontario's First Responders Act (Posttraumatic Stress Disorder), 2016* was passed by the Legislature. This amends the *Workplace Safety and Insurance Act, 1997* (Ontario) with respect to first responders and other designated workers diagnosed with PTSD. The amendments provide that if a first responder or other designated worker is diagnosed with PTSD and meets specific employment and diagnostic criteria, that first responder or other designated worker's PTSD is presumed to have arisen out of and in the course of his or her employment, unless the contrary is shown. In specific circumstances, the presumption will apply to first responders or other designated workers diagnosed with PTSD up to 24 months before the coming-in-force date, as well as those claims for which a decision is pending from either the WSIB or the WSIAT on the date the legislation comes into force.
3. Accretion represents the estimated interest cost of the benefit liabilities, considering the discount rate, benefit liabilities at the beginning of the year and payments made during the year.

The changes in actuarial assumptions and methods are comprised of the following:

	2017	2016
Changes in discount rate	-	634
Changes in methods and assumptions for loss of earnings benefits	36	(125)
Changes in methods and assumptions for future awards	(65)	-
Changes in methods and assumptions for future economic loss benefits	-	53
Changes in methods and assumptions for occupational diseases	160	-
Total changes in actuarial assumptions and methods	**131**	**562**

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Actuarial assumptions and methods

The actuarial present value of future claim payments depends on actuarial assumptions, including economic assumptions, which are based on past experience modified for current trends and expected development. Actuarial assumptions are reviewed annually when the actuarial valuation is performed. Management believes the valuation methods and assumptions are, in aggregate, appropriate for the valuation of benefit liabilities. The following table summarizes the main underlying actuarial assumptions used in estimating the categories of benefit liabilities:

Actuarial Assumption	Note	Loss of earnings	Workers' pensions	Health care	Survivor benefits	Future economic loss	External providers	Non-economic loss	Long latency occupational diseases (f)
Discount rate	(a)	√	√	√	√	√	√	√	√
Indexation	(a)	√	√	-	√	√	-	√	√
Wage escalation	(a)	√	√	-	√	√	√	√	√
Health care escalation	(a)	-	-	√	-	-	-	-	√
Wage loss	(b)	√	-	-	-	√	-	-	√
Mortality	(c)	√	√	√	√	√	-	√	√
Claims incidence	(d)	√	-	-	-	-	-	-	√
Termination	(d)	√	-	-	-	-	-	-	√
Exposure index	(d)	√	√	√	√	√	√	√	√
Expenses	(e)	√	√	√	√	√	√	√	√

(a) Economic assumptions

The following provides a summary of the primary economic assumptions used in the actuarial valuation of benefit liabilities:

	2017	2016
Discount rate	2018 and thereafter – 4.5%	2017 and thereafter – 4.5%
Indexation of benefits rate[1]:		
Fully indexed to inflation	2.0%	2.0%
Partially indexed	2.0%	2017 – 1.0% 2018 and thereafter – 2.0%
Wage escalation rate	3.0%	3.0%
Health care costs escalation rate	4.0%	4.0%

1. On December 10, 2015, the Ontario government passed the *Budget Measures Act, 2015,* which amended *Chapter 38, Schedule 23, Sections 49, 50 and 51* under the WSIA. Effective January 1, 2018, the alternate and prescribed temporary indexing factors will be replaced by one indexing factor. The new indexing factor will be based on the percentage change over a 12-month period in the Consumer Price Index measured at the previous October and will be directly applied to the benefit amount. In the interim, *Ontario Regulation 454/09* prescribes temporary indexing factors of 0.5% for 2016 and 1.0% for 2017 with the current indexing methodology.

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(b) Wage loss

Wage loss refers to the proportion of a worker's wages that is lost due to an injury. Most benefits influenced by wage loss are based on historical experience and limits in the WSIA.

(c) Mortality

The assumptions for the mortality rates were the same as the rates used in 2016 except adjusted for an additional year of mortality improvement. The base mortality rates were updated in 2013 to reflect recent experience. Mortality rates are used to estimate the duration for which the WSIB will continue to be required to make payments to injured workers or survivors receiving monthly pension amounts. The mortality assumptions are determined separately for injured workers and survivors as follows:

(i) the mortality assumption for injured workers is based on an actuarial study of the mortality levels by age and gender experienced by WSIB disability income recipients from 2006 to 2010, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB injured workers up to and including 2017;

(ii) the mortality assumption for those receiving survivor benefits is based on an actuarial study of mortality levels experienced by WSIB survivors, and the 2009 - 2011 Province of Ontario population mortality table developed by Statistics Canada, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB survivors up to and including 2017; and

(iii) the mortality rates for both injured workers and survivors are projected for future years using the Canada Pension Plan's mortality improvement factors. As such, future mortality rates are reduced to allow for greater future longevity expected for injured workers and survivors.

(d) Claims incidence, termination and exposure index

Claims incidence refers to the number of claims incurred during the year and requires actuarial assumptions for the number of claims expected to have been incurred but not reported at December 31, 2017. Termination refers to the actuarial assumptions regarding the future duration of claims. Exposure index refers to the indicator used to assist in predicting certain future costs for different injury years and represents, on a relative basis, the level of risk insured by the WSIB.

The assumptions regarding claims incidence are determined based on the number of claims incurred in past years. The termination assumption is determined using average termination experience of the WSIB from five recent injury years and modified for the existing claims expected to be of longer duration. The exposure index has been developed using the number of claims incurred up to injury year 1998, and for subsequent years, the number of workers covered by the WSIB, adjusted by the variation in the average risk associated with these workers. The termination rates and loss of earnings future lock-in claim profile has been updated in 2016 to reflect recent experience.

(e) Expenses

Ratios of claim administration costs to the amounts of claims paid are used to estimate the future costs of claim administration for current claims. These ratios had been developed in analyzing claims administration and other claims related management costs for all cost centers at the WSIB by claim type, duration and amount.

(f) Long latency occupational diseases

Long latency occupational diseases refer to future occupational disease claims arising from exposures up to the valuation date to hazardous substances or conditions, such as asbestos and excessive noise. An in-depth study was performed in 2014 to estimate the number of latent occupational disease claims, the latency periods and their expected costs. In 2014, the expected cost was updated to reflect most recent experience. These costs are for loss of earnings, labour market re-entry, future economic loss, health care, survivor benefits, retirement income benefits, and claim administration costs. The assumptions used for the determination of benefit liabilities are primarily based on the historical experience of the WSIB.

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Sensitivity of actuarial assumptions

Changes in the actuarial assumptions used have a significant effect on the claim costs recognized. The following provides an estimate of the potential impact of a change in the more significant assumptions:

Changes in assumptions	Increase in claim costs 2017	Increase in claim costs 2016
100 basis point decrease in the discount rate	3,065	3,062
100 basis point increase in the inflation rate:		
Impact of benefits indexation rate	1,972	1,972
Impact of wage growth	425	437
Impact of health care cost escalation	688	634

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Claims development

Benefit liabilities include the current estimate of future payments related to claims incurred during 2017 and prior years. Each reporting period, benefit liabilities are adjusted for changes in the estimate of the future payments, and the change in estimate is recognized in claim costs. The table below provides the development of the estimates related to claims incurred from 2008 to 2017.

	Year of injury										
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Year of estimate											
2008	2,393										
2009	2,620	2,164									
2010	3,052	2,418	2,361								
2011	3,065	2,207	2,744	2,760							
2012	3,241	2,518	2,270	2,363	2,815						
2013	3,077	2,340	2,065	2,019	2,274	2,627					
2014	2,794	2,270	1,955	1,897	2,000	2,296	2,453				
2015	2,826	2,069	1,840	1,764	1,843	1,981	2,145	2,317			
2016	2,731	1,998	1,698	1,699	1,751	1,877	1,933	2,071	2,210		
2017	2,705	1,984	1,704	1,624	1,716	1,827	1,864	1,970	2,274	2,371	
Current estimate of cumulative claims costs	2,705	1,984	1,704	1,624	1,716	1,827	1,864	1,970	2,274	2,371	20,039
Cumulative payments made	(1,449)	(938)	(700)	(577)	(539)	(500)	(451)	(420)	(375)	(180)	(6,129)
Outstanding claims (undiscounted)	1,256	1,046	1,004	1,047	1,177	1,327	1,413	1,550	1,899	2,191	13,910
Effect of discounting	(495)	(431)	(439)	(469)	(533)	(617)	(658)	(725)	(865)	(944)	(6,176)
Discounted outstanding claims	761	615	565	578	644	710	755	825	1,034	1,247	7,734
Discounted outstanding claims prior to 2007 injury year											16,160
Claim administration costs											1,257
Long latency occupational diseases											2,492
Posttraumatic stress disorder											647
Total outstanding claims											**28,290**

Claim costs for years of injury before 2016 generally exhibit a downward trend by the year of estimate. This is primarily due to favourable return to work experience among loss of earnings claimants. For 2016, however, the claim costs have grown since last year end, primarily because 2017 return to work experience has not been as favourable as in previous years.

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Rate setting

In accordance with the WSIA, the WSIB's obligations are satisfied by charging annual premiums to all Schedule 1 employers. The premiums are determined based on a percentage of insurable earnings of each Schedule 1 employer. Schedule 1 employers are classified within specific rate groups, which are based on the nature of the employer's business. The premium rate applicable to particular rate groups and Schedule 1 employers within that group is determined as the sum of four main components:

(a) the cost of new claims, which is based on the expected number of claims and claim payment costs of that rate group;

(b) administration costs, which are based on the rate group's share of expected administration costs and legislative obligations of the WSIB;

(c) the cost of old claims, which is based on the amortization of the shortfall between the costs of old claims and the accumulated assets supporting those claims; and

(d) experience rating, which, depending on the size and class of the employer, is based on relative historical cost performance of the employer relative to other employers in the same rate group.

Concentration of risks

The WSIB provides workplace injury insurance for all Schedule 1 employers with workers in the Province. In this respect, the WSIB's risks are concentrated among the workplace risks associated with the various industries in the Province. The gross premiums by industry for the year ended December 31, 2017 are provided below.

Industry	Gross premiums	% of total
Agriculture	87	2.0%
Automotive	233	5.5%
Construction	1,134	26.6%
Education	28	0.7%
Electrical	56	1.3%
Food	134	3.1%
Forestry	42	1.0%
Health care	350	8.2%
Manufacturing	648	15.2%
Mining	122	2.9%
Municipal	66	1.5%
Primary metals	47	1.1%
Process and chemicals	86	2.0%
Pulp and paper	23	0.5%
Services	744	17.4%
Transportation	471	11.0%
Total	**4,271**	**100.0%**

In addition, the WSIB's risks are concentrated among the workplace injuries and diseases that result in disabilities or deaths to injured workers. The WSIA does not provide the WSIB with the ability to diversify away from these risks. Additional risks can arise from appeals or legislative changes, which can produce an immediate increase in benefit liabilities.

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Premium rates are the only means to mitigate these risks, other than investment income. Premium rates are adjusted annually as benefit liabilities and risks are reviewed and then differentiated by rate group in order to reflect the higher or lower expected costs and loss frequency associated with particular rate groups. In addition, the rates charged to larger employers in the same rate group are further adjusted based on the historical claims experience of that employer relative to the rate group as a whole.

Liquidity of benefit liabilities risks

The following table provides an estimate of the expected timing of undiscounted cash flows for claim payments:

	2017	2016
Up to one year	6%	5%
Over one year and up to five years	17%	17%
Over five years and up to ten years	18%	18%
Over ten years and up to fifteen years	15%	15%
Over fifteen years	44%	45%
	100%	**100%**

19. Leases

Lessee

The future aggregate minimum lease payments are as follows:

	Within 1 year	2 – 5 years	Over 5 years	Total
Simcoe Place	4	17	20	**41**
Investment properties	2	8	75	**85**
Office space and computer equipment	6	19	9	**34**

(a) Simcoe Place

The WSIB has a finance lease related to the land at Simcoe Place with minimum annual lease payments of $4 (2016 – $4). The lease expires in 2027, at which point the WSIB has an option to purchase a 75% interest in the land for $2. Management considers this option to be advantageous and expects the option will be exercised, subject to the Lieutenant Governor in Council’s approval. The effective interest rate on this finance lease is 19.59% (2016 – 19.59%).

(b) Investment properties

The WSIB has three operating leases for investment properties. The WSIB has elected to measure these investment properties at fair value and to account for the related operating leases as finance leases. These leases have total annual minimum lease payments of $2 (2016 – $2) and interest rates ranging from 5.6% - 7.8% (2016 – 5.6% - 7.8%). Two of the leases have remaining lease terms of 34 years; the other has a remaining lease term of 70 years.

(c) Office space and computer equipment

The WSIB is the lessee to a number of operating leases for office space and computer equipment, with lease terms up to 10 years.

During the year ended December 31, 2017, operating lease payments of $5 (2016 – $16) were recognized in administration and other expenses. The payments included charges for operating expenses related to the leases of office space and other items.

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Lessor

(a) Investment properties

The WSIB is the lessor of a number of operating leases of its investment properties. These leases typically have a term of 5 to 15 years, with an option to renew. The future minimum lease payments to be received under non-cancellable operating leases are as follows:

	Within 1 year	2 – 5 years	Over 5 years	Total
Investment properties	67	214	166	447

20. Commitments and Contingent Liabilities

(a) Mortgages

Mortgages related to investment properties had annual fixed interest rates of 3.0% - 3.6% (2016 – 3.0% - 3.6%), and mature between 2018 and 2025 (2016 – 2017 and 2025). For the year ended December 31, 2017, interest of $3 was included in investment expenses (2016 – $3).

As at December 31, 2017, future principal payments on mortgages were as follows:

	Within 1 year	2 – 5 years	Over 5 years	Total
Mortgages	17	-	69	86

(b) Investment commitments

The WSIB had the following commitments for capital calls as at December 31 related to its investment portfolio:

	2017	2016
Investment funds, infrastructure and real estate related investments	2,142	1,748
Investments in associates and joint ventures	88	97
Purchases or development of investment properties	48	45
Total investment commitments	**2,278**	**1,890**

There was no specific timing requirement to fulfill these commitments during the investment period.

(c) Legislated obligations and funding commitments

Known commitments related to legislated obligations and funding commitments as at December 31, 2017 were approximately $269 for 2018.

(d) Other commitments

As at December 31, 2017, the WSIB had additional commitments going forward under non-cancellable contracts for purchases of goods and services with future minimum payments of approximately $159 (2016 – $149).

(e) Legal actions

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.

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21. Funding and Capital Management

As the board-governed trust agency under the Agencies and Appointments Directive for administering the Province's compensation system, the WSIB's capital management objective is to ensure sufficient funding to provide compensation and other benefits to workers and to the survivors of deceased workers. The WSIA requires the WSIB to make payments for current benefits as they come due and to provide for future benefits. Further, the WSIA requires the WSIB to maintain sufficient funding so as not to burden unduly or unfairly any class of Schedule 1 employers with payments, in any year in respect of current benefits, or in future years in respect of future benefits.

The capital resources available to the WSIB are comprised of its total assets less total liabilities, excluding those attributable to non-controlling interests. As at December 31, 2017, the WSIB's capital is represented by the unfunded liability attributable to WSIB stakeholders of $710 (2016 – $3,925).

Ontario Regulation 141/12 under the WSIA came into force on January 1, 2013 and requires the WSIB to calculate a Sufficiency Ratio and ensure the Sufficiency Ratio meets the prescribed levels by the following dates:

December 31, 2017	60%
December 31, 2022	80%
December 31, 2027	100%

Ontario Regulation 141/12, as amended by *Ontario Regulation 338/13* which became effective January 1, 2014 (collectively, the "Ontario Regulations") further clarifies the measurement of assets and liabilities included in the Sufficiency Ratio. The Sufficiency Ratio is calculated by comparing total assets to total liabilities, with certain assets and liabilities measured on a going concern basis than that required under IFRS.

The WSIB prepares a quarterly Sufficiency Report to Stakeholders to report on its progress towards meeting the legislated funding requirements. As at December 31, 2017, the Sufficiency Ratio was 95.8% (2016 – 87.4%), which was significantly higher than the 60% funding level as required by the Ontario Regulations.

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22. Related Party Transactions

The WSIB's related parties include the Government of Ontario and related entities, key management personnel, subsidiaries, associates, joint ventures, and post-retirement benefit plans for the WSIB's employees. The transactions are in the ordinary course of business and at arms-length.

Government of Ontario and related entities

The WSIB is a board-governed trust agency under the Agencies and Appointments Directive, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and various ministries, agencies, and Crown corporations over which the Government of Ontario has control.

The WSIB is required to make payments to defray the cost of administering the OHSA and the regulations made under the OHSA. The WSIB is also required to pay for the operating costs of the WSIAT and the costs that may be incurred by the Office of the Worker Adviser and the Office of the Employer Adviser. The WSIB also provides various grants and funding to carry on investigations, research and training. The total of this funding for the year ended December 31, 2017 was $258 (2016 – $246) and is included in legislated obligations and funding commitments expenses.

In addition to the above, the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various ministries, agencies, and Crown corporations over which the Government of Ontario has control.

Included in investments are $1,171 of marketable fixed income securities issued by the Government of Ontario and related entities (2016 – $1,562).

Reimbursements paid to the Ministry of Health and Long-Term Care ("MOHLTC") for physicians' fees for services to injured workers are included in claim payments. Administrative fees paid to the MOHLTC are included in administration and other expenses.

Investment Management Corporation of Ontario ("IMCO")

In 2016, the WSIB was named in *Ontario Regulation 251/16* as one of the initial members of IMCO. Created by the Ontario Government and enacted by legislation, IMCO is a new entity that will provide investment management and advisory services to participating organizations in Ontario's public sector.

On July 27, 2016, IMCO entered into a Funding Agreement with WSIB, which was amended on September 30, 2016, to fund IMCO's operations during the start-up period as defined in the Funding Agreement. The Funding Agreement sets out the basis on which monies could be advanced by the WSIB to IMCO through promissory notes during the start-up period. The promissory notes bore interest at prime rate plus 2%, calculated daily. The promissory note payable to WSIB totaled $4.3 (2016 - $1.5) and was repaid in full as at June 30, 2017.

On July 24, 2017, IMCO officially began managing WSIB's invested assets and subsequent to IMCO becoming operational, WSIB's share of IMCO's operating expenses are paid by WSIB on a cost recovery basis.

External investment manager and custodial fees, previously paid directly by WSIB, are now paid by IMCO on WSIB's behalf.

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Key management remuneration

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the WSIB, directly or indirectly. The remuneration of key management, which includes the Board of Directors, is included in administration and other expenses.

	2017	**2016**
Salaries and short-term benefits	5.1	4.7
Employee benefit plans	0.6	0.6
Total key management remuneration	**5.7**	**5.3**

Employee benefit plans

The WSIB's defined benefit pension plans and the other benefit plans are considered related parties. Note 16 provides details of transactions with these employee benefit plans.

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23. Information on Subsidiaries and Non-controlling Interests

The WSIB's consolidated financial statements include the financial statements of all its subsidiaries.

(a) Directly or indirectly owned subsidiaries

The majority of the WSIB's assets are held directly or indirectly by the following subsidiaries:

	WSIB's ownership		Country of incorporation and operation
	2017	2016	
Wholly owned subsidiaries			
799549 Ontario Inc.	100.0%	100.0%	Canada
WSIB VanIF GP Holdings Ltd.[1]	100.0%	n/a	Canada
WSIB VanLRI GP Holdings Ltd.[1]	100.0%	n/a	Canada
Simcoe Wight IF Holdings Ltd.[1]	100.0%	n/a	Canada
Simcoe Wight LRI Holdings Ltd.[1]	100.0%	n/a	Canada
WSIB Investments (International Realty (Non-Pension)) Limited	100.0%	100.0%	Canada
Partly-owned subsidiaries			
Absolute Return (2012) Pooled Fund Trust	90.4%	90.0%	Canada
Diversified Markets (2010) Pooled Fund Trust	90.4%	90.0%	Canada
Diversified Markets (2009) Pooled Fund Trust	90.4%	90.0%	Canada
WSIB Investments (Fixed Income) Pooled Fund Trust	90.4%	90.0%	Canada
WSIB Investments (Infrastructure) Pooled Fund Trust	90.4%	90.0%	Canada
WSIB Investments (International Realty) Limited	90.6%	90.0%	Canada
WSIB Investments (Public Equities) Pooled Fund Trust	90.4%	90.0%	Canada
WSIB Investments (Realty) Limited	90.6%	90.0%	Canada
WSIB Investments (Total Return) Pooled Fund Trust	90.4%	90.0%	Canada
Simcoe Pacific Pooled Fund Trust	90.4%	90.0%	Canada

1. These entities were incorporated in 2017.

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The WSIB's Employees' Pension Plan is the non-controlling interest in each of the partly-owned subsidiaries listed above. The following provides aggregated summary financial information for the partly-owned subsidiaries, before intercompany eliminations:

Summary information from statements of financial position	2017	2016
Total assets	32,845	28,465
Total liabilities	(130)	(275)
Surplus of assets	**32,715**	**28,190**
Attributable to the WSIB Employees' Pension Plan	**3,124**	**2,828**

Summary information from statements of comprehensive income	2017	2016[1]
Investment income	3,199	1,735
Investment expenses	(40)	(33)
Net investment income	**3,159**	**1,702**
Translation losses from net foreign investments	**34**	**8**
Attributable to the WSIB Employees' Pension Plan	**306**	**174**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

(b) Reconciliation of non-controlling interests

The following provides a reconciliation of the non-controlling interests, including the effect of changes in ownership:

	Non-controlling interests		
	Partly-owned subsidiaries	Other subsidiaries	Total
Balance as at December 31, 2015	**2,699**	**103**	**2,802**
Excess of revenues over expenses[1]	175	(2)	173
Translation differences from net foreign investments[1]	(1)	-	(1)
Distributions paid by subsidiaries to non-controlling interests	(173)	(4)	(177)
Disposition of non-controlling interests	128	4	132
Balance as at December 31, 2016	**2,828**	**101**	**2,929**
Excess of revenues over expenses	309	3	312
Translation differences from net foreign investments	(3)	-	(3)
Distributions paid by subsidiaries to non-controlling interests	(195)	(3)	(198)
Disposition of non-controlling interests	185	3	188
Balance as at December 31, 2017	**3,124**	**104**	**3,228**

1. Certain comparative amounts have been reclassified to be consistent with the current year's presentation.

Losses Deleted From the Accounts

(Under the *Financial Administration Act*)

For the fiscal year ended March 31, 2018

Ministry	2017-2018
FINANCE…………………………………………………………………	$251,155,867.00
ADVANCED EDUCATION AND SKILLS DEVELOPMENT………	50,404,261.81
COMMUNITY AND SOCIAL SERVICES…………………………..	34,370,921.31
ATTORNEY GENERAL……………………………………………	8,925,875.46
CHILDREN AND YOUTH SERVICES………………………………	4,739,046.82
INDIGENOUS RELATIONS AND RECONCILIATION………......	1,599,941.84
NATURAL RESOURCES AND FORESTRY……………………….	819,160.72
HEALTH AND LONG-TERM CARE………………………………..	591,291.95
TRANSPORTATION……………………………………………….	410,067.48
TOURISM, CULTURE AND SPORT………………………………..	183,490.99
COMMUNITY SAFETY AND CORRECTIONAL SERVICES…….	55,517.04
AGRICULTURE, FOOD AND RURAL AFFAIRS………………….	48,154.00
GOVERNMENT AND CONSUMER SERVICES………………….	7,320.01
TREASURY BOARD SECRETARIAT……..……………………….	3,015.63
LABOUR……………………………….……………………………….	2,433.46
NORTHERN DEVELOPMENT AND MINES……………………….	30.24
TOTAL………………………………………………………………	$353,316,395.76

REVENUE REMISSIONS

Details of Remission granted under the *Electricity Act, 1998*
for the year ended March 31, 2018

Description of the Remission by the Minister of Finance

Pursuant to section 50.3 of the *Electricity Act, 1998*, the Minister of Finance granted remission of the Ontario Electricity Financial Corporation's ("OEFC") obligation to repay $411,152,733 of the principal amount of an advance due June 21, 2017 as recorded in the Grid Promissory Note issued pursuant to the Loan Agreement between the OEFC and Her Majesty in right of Ontario dated as of April 1, 2000, as amended as of May 29, 2002.	$411,152,733

The remission was in respect of the common shares of Hydro One Limited sold in April 2016. Under section 50.3 of the *Electricity Act, 1998*, the Minister of Finance is required to pay the OEFC an amount equal to the proceeds payable to the Crown in respect of the disposition of common shares of Hydro One Limited, less the amount of any costs incurred by the Crown in disposing of the securities, and less any amount that the Minister of Finance considers advisable in connection with the securities. Under the *Electricity Act, 1998*, the Minister of Finance is explicitly authorized to make such payment by granting a remission of all or part of a debt owed by the OEFC to Her Majesty in right of Ontario.